DOCUMENT RESUME

ED 162 568	HE 010 647

TITLE	Middle Income Student Assistance Act. Hearings before the Subcommittee on Postsecondary Education of the Committee on Education and Labor, House of Representatives, Ninety-Fifth Session, Second Session, on H.R. 10854. Hearings held in Washington, D.C., February 9, 16, 22, and 23, 1978.
INSTITUTION	Congress of the U.S., Washington, D.C. House Committee on Education and Labor.
PUB DATE	23 Feb 78
NOTE	402p.; Some statements may not reproduce well
AVAILABLE FROM	Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20242
EDRS PRICE	MF-$0.83 HC-$22.09 Plus Postage.
DESCRIPTORS	College Students; *Educational Legislation; Eligibility; *Federal Aid; *Federal Legislation; Financial Support; Hearings; Higher Education; *Income Contingent Loans; *Middle Class; *Student Financial Aid
IDENTIFIERS	Higher Education Act 1965; *Middle Income Student Assistance Act

ABSTRACT

Hearings before the House Subcommittee on Postsecondary Education on H.R. 10854 are presented. The bill would amend the Higher Education Act of 1965 to increase the eligibility of middle-income students for the various forms of student assistance available under such act, and for other purposes. The text of the bill and statements of numerous spokesmen are presented. Supplementary materials are appended. (SW)

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MIDDLE INCOME STUDENT ASSISTANCE ACT

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
POSTSECONDARY EDUCATION
OF THE
COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES
NINETY-FIFTH CONGRESS
SECOND SESSION
ON

H.R. 10854

TO AMEND THE HIGHER EDUCATION ACT OF 1965 TO INCREASE THE ELIGIBILITY OF MIDDLE-INCOME STUDENTS FOR THE VARIOUS FORMS OF STUDENT ASSISTANCE AVAILABLE UNDER SUCH ACT, AND FOR OTHER PURPOSES

HEARINGS HELD IN WASHINGTON, D.C.,
FEBRUARY 9, 16, 22, AND 23, 1978

Printed for the use of the Committee on Education and Labor
CARL D. PERKINS, *Chairman*

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MIDDLE INCOME STUDENT ASSISTANCE ACT

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BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR HOUSE OF REPRESENTATIVES

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MIDDLE INCOME STUDENT ASSISTANCE ACT

THURSDAY, FEBRUARY 9, 1978

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, at 1:11 p.m. in room 2175, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Cornell, and Buchanan.

Staff present: Thomas R. Jolly, subcommittee counsel; Patricia Rissler, subcommittee clerk-legislative associate; William F. Gaul, committee associate general counsel; and Christopher T. Cross, minority staff director.

Mr. Ford. The hearing on the Middle Income Student Assistance Act will now come to order. We will now resume the meeting of the Subcommittee on Postsecondary Education. Along with other difficulties, we have had time changes, and we now have a vote on the floor. I want to thank those who came, will vote quickly, and return later. I will take a chance on missing a vote. We have already asked people to stay longer than they intended. There have been unfortunate conflicts.

[The text of H.R. 10854 follows:]

[H.R. 10854, 95th Cong., 2d sess.]

A BILL To amend the Higher Education Act of 1965 to increase the eligibility of middle-income students for the various forms of student assistance available under such Act, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Middle Income Student Assistance Act of 1978".

Sec. 2. (a) Section 411(a)(2)(A)(i) of the Higher Education Act of 1965 is amended by inserting before the period at the end thereof the following: ", except that the amount of such grant shall not be less than $250 for any student whose annual adjusted family income (determined in accordance with regulations prescribed by the Commissioner) does not exceed $25,000".

(b) Section 411(a)(2)(B)(ii) of that Act is amended to read as follows:

"(ii) No basic grant under this subpart shall exceed whichever is the greater of—

"(I) the difference between the expected family contribution for a student and the actual cost of attendance at the institution at which that student is in attendance, or

"(II) $250.

If with respect to any student, it is determined that the amount of a basic grant plus the amount of the expected family contribution for that student exceeds the actual cost of attendance for that year, the amount of the basic grant shall be reduced until the combination of expected family contribution and the amount of the basic grant does not exceed the actual cost of attendance, except that any reduction required by this paragraph shall not reduce the amount of any basic grant to less than $250: *Provided*, That, in the case of a single independent student with no dependents, no basic grant under this subpart shall exceed the difference between the expected family contribution for a student and the actual cost of attendance at the institution at which that student is in attendance. If with respect to such single independent student, it is determined that the amount of a basic grant plus the amount of the expected family contribution for that student exceeds the actual cost of attendance for that year, the amount of the basic grant shall be reduced until the combination of expected family contribution and the amount of the basic grant does not exceed the actual cost of attendance at such institution.".

(c) Section 411(a)(2)(B) of that Act is amended by striking out subdivision (iii) and by redesignating subdivision (iv) as subdivision (iii).

(d) Section 411(a)(3)(C) of that Act is amended by adding at the end thereof the following:

"In addition, such regulations shall—

"(i) provide that the portion of assets which shall be exempt from assessment for contribution for an independent student who has one or more dependents shall be the same as the portion so exempt for the family of a dependent student;

"(ii) provide that the rate of assessment for contribution on that portion of assets of such an independent student which is not exempt under subdivision (i) shall be the same as the rate applied to the comparable portion of assets of the family of a dependent student; and

"(iii) in establishing a portion of effective family income which shall be exempt from assessment for contribution by reason of subsistence requirements of independent students who have no dependents, use the same method for computation of such portion for such students as is used for dependent students and for independent students who have dependents.".

(e) Section 411(b)(5) of that Act is amended by striking out "$237,400,000" in subparagraph (B) and inserting in lieu thereof "$600,000,000".

(f) Section 411(b) of that Act is amended by adding at the end thereof the following:

"(e) No payments may be made on the basis of entitlements established under this subpart during the fiscal year ending September 30, 1980, in which—

"(A) the appropriation for making grants under subpart 2 of this part does not at least equal $450,000,000; and

"(B) the appropriation for work-study payments under section 441 of this title does not at least equal $600,000,000; and

"(C) the appropriation for capital contributions to student loan funds under part E of this title does not at least equal $286,000,000.".

(g) Section 415E of that Act is amended by striking out "$75,000,000" and inserting in lieu thereof "$100,000,000."

SEC. 3. Title IV of the Higher Education Act of 1965 is further amended—

(1) in section 428(a)(2)(B) by striking out "$25,000" each place it appears and inserting in lieu thereof "$40,000".

(2)(A) in section 438(b)(2)(A)(ii) by striking out "3.5 per centum from such average" and inserting in lieu thereof "3 per centum from such average during any period of repayment or substracting 3.5 per centum from such average during any other period";

(B) in section 438(b)(2) by adding at the end thereof the following new subparagraph:

"(D) For purposes of subparagraph (A) the term 'period of repayment' means any period during which any installment of principal has become due in accordance with section 427(a)(2)(B) or 428(b)(1)(E) and such installment is not eligible for deferral pursuant to section 427(a)(2)(C) or 428(b)(1)(M).";

(3) in section 438(b)(2)(B) by striking out "(i)"; and

(4) in section 438(b)(2)(C) by stiking out the period at the end thereof and inserting in lieu thereof the following: "; or (ii) cause such allowance to be less than 1 per centum for any such period, the special allowance rate to be paid for any such period shall be increased to the lowest one-eighth of 1 per centum rate which would not cause such difference.".

SEC. 4. (a) Section 1208 of the Higher Education Act of 1965 is amended by striking out ", part C of title VII," each place it appears in subsections (a) and (b).

(b) Section 1208(b) of such Act is amended by striking out "$215,000,000" and inserting in lieu thereof "$50,000,000".

Mr. FORD. I will first call forward Mr. William Bowen, president of Princeton University, who is also appearing here today in his capacity as chairman of the board of directors of the American Council on Education. Would you like to come forward?

Without objection, the prepared statement that you have been kind enough to supply to the committee will be entered at this point in the record. You may proceed to comment on it, and to add or underline any points if you wish and as you see most appropriate.

[The statement of William G. Bowen follows:]

TESTIMONY PRESENTED BY WILLIAM G. BOWEN, PRESIDENT, PRINCETON UNIVERSITY AND CHAIRMAN, BOARD OF DIRECTORS, AMERICAN COUNCIL ON EDUCATION

Mr. Chairman and Members of the Subcommittee:

I am William G. Bowen, President of Princeton University and current Chairman of the Board of Directors of the American Council on Education. The ACE is, as you know, the "umbrella organization" for higher education, and I believe I speak for the overwhelming majority of our member institutions in applauding President Carter for his commitment to an unprecedented $1.2 billion increase in federal student aid and Chairman Ford and his colleagues for their efforts to bring about a dramatic strengthening of student aid programs.

As the President of the ACE, Jack W. Peltason, has already wired the President and the sponsors of the legislation, "the higher education community strongly supports the use of existing aid programs as the most effective way to help middle-income families meet the costs of higher education. We pledge to work with the Administration and the Congress to assure the most equitable and balanced distribution of funds among existing programs to meet the needs of students attending all types of institutions."

Over the last decade the Federal Government has made a major contribution to important national goals through a carefully developed program of assistance to students that has increased educational opportunities significantly. This new initiative underscores and strengthens that commitment.

The bill before this Subcommittee involves the largest increase ever proposed for federal student aid: an increase of 38 percent over the FY 78 level. With an additional $800 million committed for FY 80, the two-year increase would total $2 billion, or 64 percent over the FY 78 level of support.

The increasing problems of paying for higher education are evident, and it is our view that the fairest approach to solving these problems is through student aid programs that provide assistance on the basis of demonstrated need.

While we appreciate greatly the efforts of the sponsors of tax credit legislation to address these same problems, and particularly to assist middle-income families, we are convinced that the student aid approach is preferable: from the standpoint of national policy, the student aid alternative would be more effective and less costly in the long run, as well as fairer.

In supporting strongly the magnitude and the general intent of this legislation, I would also urge the Subcommittee to give careful attention to the individual elements of the proposal and their impact on the overall equity and balance of federal student aid programs. While I have not as yet had an opportunity to give the proposals the detailed attention they deserve, I want this morning to direct your attention to two specific issues:

1. In its desire to guarantee Basic Grants to all students with family incomes up to $25,000, the Administration proposal as I understand it would distribute the same minimum award of $250 across a fairly wide income range from $17,500 to $25,000. To preserve the important principle that aid is based on relative financial circumstances, I hope the Subcommittee will consider alternative modifications in the Family Contribution Schedule. This principle can be protected if part of the $800 million committed for FY 80 is applied to changes in the Family Contribution Schedule in FY 79; it could also be protected within the $1.2 billion proposed for FY 79 if the guaranteed minimum grant were limited to incomes up to $20,000 rather than $25,000; the size of the minimum grant could also be reviewed. This is a matter I believe deserves further study.

2. It is vital to increase grant aid through the Supplemental Educational Opportunity Grant program, as well as through Basic Grants. SEOGs are an essential supplement to BEOGs, particularly for students attending higher-priced institutions that are both public and private.

The BEOG program with its standardized national need criteria provides an important foundation of assistance for all students. The campus-based SEOG program complements the BEOG program by providing flexible assistance to students from middle-income families who may qualify for a Basic Grant that is very small in relation to the costs they have to bear, or who may fail to qualify for even the minimal Basic Grant. Much of the understandable pressure for tax credits comes from families in precisely these circumstances, and I think the student aid program as a whole will address these concerns much more effectively if it includes a significant increase in SEOG funds.

An increased SEOG appropriation is needed to assure low- and middle-income students of a realistic option of attending a higher-priced institution. This should be seen as an important national objective, I would argue, not just because we want each individual student to have a real opportunity to develop his or her talents to the fullest in the institution that seems right for him or her, but also because the learning environment at all of our institutions will be a much better one if it is possible for individuals from different economic backgrounds to learn together. A truly democratic society cannot afford to have institutions of higher education stratified by economic circumstances. Nor can we afford, as a society, to lose the values of pluralism and diversity represented by a system of higher education that includes both public and private institutions of many kinds.

The existing level of SEOG funding is clearly insufficient. In academic year 1979-80, with an $1,800 maximum BEOG grant, the average BEOG of $987 will meet only 27 percent of student expenses averaging $3,700 at all institutions. The unmet need at many private and public institutions is obviously far greater, and institutions must often help students by supplementing the BEOG support out of their own limited funds. But institutional resources are already overextended, state student aid is unevenly distributed, and students attending college outside of their home states are usually not eligible for state aid.

To help make up the difference between the cost of attendance and the Basic Grant for low- and middle-income students, and to provide some grant assistance to those with incomes just above BEOG eligibility attending more costly institutions, SEOGs should be increased substantially over the FY 78 level of $270 million. The ACE has estimated that an increase of $100 million, for example, would provide grants to an additional 182,000 students from middle-income families. Even if it requires adjustments in other parts of the program, I would urge the Subcommittee to increase the funding for SEOGs by at least this amount for FY 79. I note with enthusiastic support that the bill as introduced by Chairman Ford would mandate an increase to $450 million for SEOGs in FY 80.

I also strongly support the provisions of the bill as introduced which would mandate a raise for College Work Study to $600 million in FY 80. Such mandated increases are necessary to guarantee that appropriations will be sufficient to maintain the essential balance between the Basic Grant and the campus-based programs. Without such modification of the thresholds, this critical balance would stand in jeopardy.

I hope Congress will act promptly on this legislation to provide needed relief for middle-income families in meeting the costs of higher education for their children. The American Council on Education would like to offer the Subcommittee our fullest cooperation in providing further information and analysis. I personally would be glad to help in any way that I can.

We commend you for taking such an important step, and we look forward to working with you to achieve a major breakthrough toward the goal of educational opportunity for all citizens.

STATEMENT OF WILLIAM G. BOWEN, PRESIDENT, PRINCETON UNIVERSITY AND CHAIRMAN, BOARD OF DIRECTORS, AMERICAN COUNCIL ON EDUCATION

Mr. Bowen. Thank you very much, Mr. Chairman. I am very pleased to be here. I congratulate you for your endurance, stamina, and your obvious knowledge of the subjects that are before us.

I am here primarily on behalf of the ACE, the American Council on Education which, as you know, is the umbrella organization for higher education.

The first part of my statement consists of some very warm and very deeply felt words of thanks which I believe I express on behalf of the members of the American Council on Education. Thanks to President Carter for his commitment to an unprecedented $1.2 billion increase in the Federal student aid program. Thanks to you, Chairman Ford, and to your colleagues for all of your efforts on behalf of these programs.

I would like also, with your permission, to include in the record the telegram that Jack W. Peltason, president of the American Council on Education, has sent expressing his appreciation and his endorsement of this effort.

Mr. Ford. Without objection, it will be entered into the record in full at this point.

[The telegram from Jack W. Peltason follows:]

[Telegram]

Washington, D.C., *February 8, 1978.*

Hon. William Ford,
U.S. House of Representatives,
Washington, D.C.

Congratulations on behalf of the American Council on Education for your sponsorship of legislation to increase student aid by $1.2 billion as an alternative to tax credits. The higher education community strongly supports the use of existing aid programs as the most effective way to help middle-income families meet the costs of higher education. We pledge to work with the administration and the Congress to assure the most equitable and balanced distribution of funds among existing programs to meet the needs of students attending all types of institutions. Prompt enactment of such legislation will mark a new milestone in extending postsecondary opportunities.

J. W. Peltason, *President.*

Mr. Bowen. The bill before this committee, of course, involves the greatest increase ever proposed for Federal student aid, an increase of 38 percent over fiscal year 1978. With the additional increase for fiscal year 1978, and with the additional $800 million that has been committed for 1980, it would represent a 64-percent increase over that 2-year period.

This is very welcome support, very badly needed. The increasing problems of paying for higher education are evident, and it is our view that the fairest approach to solving these problems is through student aid programs that provide assistance on the basis of demonstrated need.

While we appreciate greatly the efforts of the sponsors of the tax credit legislation to address these same problems, and particularly to assist middle-income families, we believe that the student aid approach is preferable.

From the standpoint of national policy, the student aid alternative would, in our judgment, be more effective and less costly in the long run as well as fairer.

In supporting the magnitude and the general intent of this legislation, I would also urge the subcommittee to give careful attention to the individual elements of the proposal, and their impact on the overall equity and balance of the Federal student aid programs.

While I have not as yet had the opportunity to give the proposals or the legislation the detailed attention that they deserve, I would just very briefly direct your attention, if I may, to two specific issues:

First, in its desire to guarantee basic grants to all students with family incomes up to $25,000, the administration proposal, as I understand it, would distribute the same minimum award of $250 across a fairly wide income range from $17,000 to $25,000 as the Secretary's chart indicated this morning.

To preserve the important principle that aid is based on relative financial circumstances, I hope that the subcommittee will consider alternative modifications in the family contribution schedule.

I know that there are a great variety of ways in which one might alter the shape of that curve, and I would think that that is a matter that deserves further study.

The second issue which I would like to bring to your attention, if I may, Mr. Chairman, is to convince many of you that it is vital to increase grant aid through the supplemental educational opportunity program as well as through basic grants.

The SEOG is an essential supplement to BEOG's, particularly for students attending more costly institutions that are both public and private.

And then I go on, Mr. Chairman, in my statement to explain the importance of the SEOG program as a complement to the BEOG program, to stress the value it serves in providing flexible assistance, especially to students from lower- and middle-income families who may qualify for a basic grant that is small in relation to the cost they have to bear, or students who may fail to qualify for even the minimal basic grant.

Much of the understandable pressure for tax credits comes from families in precisely these circumstances, and I think the student aid program, as a whole, will address these concerns more effectively if it includes a significant increase in the SEOG funds.

An increase in the SEOG appropriation is needed to assure more lower- and middle-income students of a realistic option of attending more costly institutions. This should be seen as an important national objective, I would argue, not just because we want each individual student to have a real opportunity to develop his or her talents to the fullest in the institution that seems right for him or her, but also because the learning environment of all of our institutions is going to be much better if it is possible for individuals from different economic backgrounds to learn together.

A truly democratic society cannot afford to have institutions of higher education stratified by economic circumstances. Nor can we afford, as a society, to lose the pluralism and diversity represented by a system of higher education that includes public and private institutions of many kinds.

I was very pleased this morning to hear Congressman Brademas speak to that same point.

I then go on in my statement—I won't repeat it here—to describe the current level of SEOG funding, and to urge the subcommittee to find the way, if it can, to increase the funding of SEOG by at least $100 million for fiscal year 1979.

We would urge consideration of this change in the composition of the package even if it were to require, as I presume it would, other modifications so as to stay within the whole budgetary commitment.

I was very pleased to learn last evening that the bill which was introduced by you, Mr. Chairman, would mandate an increase of $450 million for SEOG in fiscal year 1980. This provision has my enthusiastic support.

I would also support strongly the provisions of the bill as introduced which would mandate an increase for college work study to $600 million in fiscal year 1980.

I hope that Congress will act promptly on this legislation. It is very important legislation.

The American Council on Education would like to offer the subcommittee our fullest cooperation in providing further information and analysis. I, personally, would be very glad to help you and your committee members in any way that I can.

Finally, I would only add a word of commendation for your taking such an important step, and I look forward to working with you to achieve a major breakthrough for the goal of educational opportunities for all citizens.

I think with that summary, Mr. Chairman, I will stop. I would be glad to respond to any questions that you might like to put to me, either questions which were raised this morning that the Secretary kindly and generously referred to the college and university presidents, or any questions that are important to you.

Mr. FORD. Thank you very much. Before I ask any questions, I would like to convey a message from my colleague, Frank Thompson, who is very disappointed at not being able to participate this morning.

You should know that he has been involved every step of the way in the negotiations that have led up to the events of yesterday and today, and has used his considerable and well-deserved prestige in this body in getting people to pay attention and at least listen to the pleas. He wants me especially to thank you for your cooperation in responding on such short notice to come and support this legislation.

You mentioned something about which we have not talked very much. You mentioned here the problem of the student who goes to the out of State school. We have our attention drawn to that with regard to public schools very frequently and the question of nonresident fees. I suspect it is true, without having very much knowledge upon which to base that hunch, that most of the student assistance is portable in the sense that the student's aid can be used by him as part of the package to select his institution, in any State.

I wonder if we couldn't well consider in this legislation the question of whether it would be wise public policy to encourage States to follow the pattern of the Federal freedom of choice, and perhaps provide an incentive for doing that: Your organization could help us with some suggestions about how this legislation might be helpful in reaching that end.

It is my suspicion, based on the experience we have had in the past, that, if we are successful with this initiative on reaching middle class students with the existing Federal education programs, those States who have not yet addressed themselves to this group of people will very soon be doing so. Perhaps we can encourage those who do come in, so it becomes a part of the total package.

That was considered by my own State legislature very recently. They adopted a very generous program for students, specifically and exclusively for students not attending public institutions in our State.

I don't know whether we can touch on that or not, Bill, but I would like to solicit your assistance in considering that as part of the dynamics of the totality of providing access to education for the small-income student group that we have been describing without being too specific, and not let this opportunity pass without at least considering that.

I might also observe that the members of this committee who participated in trying to negotiate the package felt very strongly that the supplemental educational opportunity grants were an important part of the total package, that it had to be improved to give credibility to our efforts.

I think that you quite accurately pinpointed our problem, that we are not dealing with a philosophical block in the administration at this moment on 1979. We are dealing with dollar figures and computer runs. If we can find a way to deal with those problems and still stay within the limitations that we face, we have to recognize that—I would admit this here and forever more in this important position—the administration has come a long way from the starting point on dollars and the impact on this administration's budget.

I am sure that the President will be thanked for this kind of initiative solely on the dollar volume involved because that is very popular.

We had some evidence this morning that he has already started hearing Congress.

I might observe that the very first phone call that my office received after this went out yesterday was from a longtime friend who is a professional man who called and told my office very angrily that that is more like a Communist block of the hard-working people of this country.

Mr. **Bowen**. Mr. Chairman, may I interject that you are not the only one who received such telegrams.

Mr. **Ford**. I am sure that there will be reactions with which we will have to deal in that regard. But even though we contemplate moving to the increase in the supplemental grants next year, and if we end up with legislation that is not effective in this year's level of funding, the President has asked for full funding at least of last year's expenditures, which is in force for some time, but no increase in the 1979 fiscal year, the increase contemplated by the Senate. Even if we have to defer the supplemental opportunity grant increases to 1980, the next fiscal year, do you believe that the package, as it was presented by the administration, is preferable to the expenditure of a similar amount of money through the tax credit plan that has been advanced?

Mr. Bowen. I am trying to keep track of my questions, Mr. Chairman. Let me try to respond. Take your last question first. Yes. My answer to that question is that I would believe that the program, as advanced, is preferable to the expenditure of the same amount of money on the basis of the tax-credit mechanism. That would be my view.

Mr. Ford. What is the average tuition at your institution?

Mr. Bowen. The average tuition for all of our institutions would be very difficult for me to estimate.

Mr. Ford. At your own institution.

Mr. Bowen. Next year, roughly, $5,000, which is a very substantial figure, I might just say.

Mr. Ford. The very first assumption that was made on the floor when the proposal first entered the movement was that institutions such as yours would be most likely to want a tax credit and some people looked at it.

We suggest that no, the institutions that are not funded directly by State governments and local governments are, in fact, concerned that that is not the best approach for them.

Mr. Bowen. Could I respond to that?

Mr. Ford. Certainly.

Mr. Bowen. I believe very strongly that equal opportunity in the context of American higher education has to mean that not only the qualified individuals can go to a particular institution, but that the qualified individuals will have some choice, and will have some real opportunities to attend whatever institution will serve their needs best and, therefore, the problem of the middle-income family need is a very acute one for institutions that are more costly.

And we may have a student from a family, let's say, that earns $15,000, and that would receive a very modest basic opportunity grant which would not go very far toward meeting the cost of education.

And one of the great advantages of the SEOG approach is that it has enabled us to help children from those families using SEOG money as basically matching money from funds that we commit through our own institutions through other funds to make up the gap between the total charges and what these basic grants can provide.

It is flexibility, and the opportunity to construct financial aid packages that make equal opportunity a reality. That means that those campus based programs, SEOG, and work study, are also important as part of the total package.

I have tried to answer your question, that part of it, but let me quickly say that I am here today primarily to speak for the totality of the institutions within the AEC, if I could go on and address one or two of the other questions that you raised.

On the question of State boundaries limiting State programs, I would be reluctant to try to speak for the ACE on that matter. I would say only two things.

First, that speaking now as an individual I am in full agreement with what you have said. I think it is very important that access to higher education in this country not be limited by State boundaries just as it not be limited by economics, and I personally would favor efforts that your committee might make to ease restrictions on the portability of funds.

The second thing I would say is that an important advantage of the SEOG and work study programs area is, of course, precisely that they are not limited by State boundaries so the Federal programs are very important to us in providing assistance to students with demonstrated need from all parts of the country. That is true of private institutions and it is true of public institutions.

Finally, in response, Mr. Chairman, to your comments on the SEOG's, I am very pleased to be reminded again of your steady support for that element of the overall program. I would hope that it will be possible, as I have said, to make provision for some increment in that program within current budgetary constraints.

Mr. FORD. Mr. Buchanan.

Mr. BUCHANAN. Thank you, Mr. Chairman.

I, too, wish to apologize to you and the Chair, Dr. Bowen. I just had some constituent and voting problems that delayed my arrival here, but I know you have made a suggestion about which I, at an earlier hearing, expressed some concern. That is, are we at this point increasing supplemental educational opportunities program aid as well as basic grant program aid? Would you comment further?

Mr. BOWEN. I think, Mr. Congressman, that it is very important that the balance between these programs be preserved and that their complementarities be emphasized. Just as the basic opportunity program serves a very important purpose as a foundation of aid across the board, so the SEOG program is critically important in institutions of all kinds all over the country.

In the altogether commendable effort which I applaud to address the problems of middle-income families as well as other families through existing student programs, we hope very much that the principle will be preserved that need depends on both family circumstances and the obligations the family undertakes in sending a person to a particular school.

Mr. BUCHANAN. Do you have any comment on SSIG?

Mr. BOWEN. Yes; that also seems to us to be an important program. I believe there are other people who are going to be testifying from among the ranks of the college and university presidents who can speak in more detail to that particular program. But that, too, we think well of. We include SSIG when we say that the overall balance of the program is important.

Mr. BUCHANAN. Thank you, Mr. Chairman.

Mr. FORD. Thank you.

Suppose that, just to set up a hypothetical question so we can gauge the priorities that you are describing to us, we consider taking $50 million away from the work-study program and putting it into SEOG. Would that kind of shift of money have any significant impact and would it be a desirable thing to do?

Mr. BOWEN. We have discussed this within the ACE. I believe it is the consensus within the ACE that that kind of a shift would be desirable. Obviously work-study is important, too, and we are much in favor of work-study programs. But to achieve the kind of balance that I have been trying to describe, some additional funding of SEOG's would, I think, have an even higher priority and it is a matter of priority.

May I say, having heard the testimony this morning. I happen to be a student who worked his own way through school and has been very proud to have done that, and I always thought it was beneficial educationally as well as financially. But there is a limit as to how much burden can be put on the work aspect of student aid for students from modest family backgrounds if they are to be given a real opportunity to compete effectively and to do well and take advantage of the educational opportunities that the institutions offer.

So I would not want to see the campus-based part of the student aid appropriation be weighted too heavily toward work-study as contrasted with the SEOG grant program. I would hope that your committee would consider other kinds of reallocations within the total budget constraints that you have to face.

There are obviously complicated questions of formulae and all the rest in terms of the BEOG part of the program as well as the work-study part. I would hope some consideration would be given to that balance at the edges.

Mr. **Ford**. Thank you very much.

Mr. Cornell.

Mr. **Cornell**. Thank you, Mr. Chairman.

I have no questions. I am sorry I am late. I just came to hear one of the college administrators advise Congress that we should exercise some fiscal responsibility and oppose the President's additional $1.2 billion for this purpose. I will wait to hear.

Mr. **Bowen**. May I respond to that invitation?

Mr. **Ford**. Did you say you were opposing it?

Mr. **Cornell**. No; I said I am waiting to hear someone say they oppose it with the $60-some billion deficit.

Mr. **Ford**. You missed this morning's hearing. One of our colleagues on the committee did an effective job of opposing it primarily on the basis of the concern he has for the deficit. He did not address the relative merits of this approach necessarily, but the basic question of whether we could afford it.

Mr. **Cornell**. Apparently the administration did not view the relative merits when they suggested an increase of $200-some million.

Now, another $1.2 billion, maybe it is inspiration from on high, but I will wait and hear what the administration has to say.

Mr. **Bowen**. Could I as a sometime economist—which is the discipline which I was trained in—offer this observation on the question being posed. Yes, inflation has been a problem for institutions of higher education, but I do not think it is right to say that the deficits that have been incurred by the Federal Government have been the only or the principal cause of that inflation problem.

I would identify myself now as a professional economist very strongly with what Secretary Califano said on that subject this morning. I would go on to say, in my judgment, this recommendation by the administration and the legislation that you are supporting is very responsible in that it meets what is a major need of the society, a need that is really an investment need. That is the way this proposal should be seen. It meets an investment need in a cost effective way.

Mr. **Ford**. I want to ask one final question, but I want to first share with you my philosophy of Federal aid to education.

It is my view—and it has become stronger in the years I have served on this committee—that the basic rationale for the use of taxpayers' funds at the higher education level is quite different than the pressure for support of the elementary and secondary system toward which we have a different policy, and that we as a Nation have an investment in the resource of educated people in our society, educated to do the thing that have to be done in a complicated society and to cope with it. But our basic objective with Federal funds in supporting student assistance in higher education should be to provide access to education with complete freedom of choice for people who otherwise would not have access at all or at least would not have access to the institution of their choice or perhaps would not have access in the sense of the ability to complete an education after considerable investment has been made and their own funds, by reason of family tragedy or whatever, were exhausted.

Now, I see you nodding. Do you subscribe to that as a principle?

Mr. **Bowen**. I think that states the principle I would espouse very well. I subscribe to it completely.

Mr. **Ford**. How does your organization view the alternatives of any of the mentioned tax credit proposals versus student grants and loans in terms of providing access to students who otherwise would not go to school or finish school?

Mr. **Bowen**. I think the position of the American Council on Education has been and is that we are not opposed to tax credits. We understand the objectives they are intended to serve and we appreciate the efforts that their sponsors have made to direct attention of all of us to a very real set of concerns.

Having said that, I would reiterate our clear preference for direct assistance programs, student assistance programs as a general approach. That, in our view, is more likely to advance the philosophy you have articulated per dollar spent. That would be, I believe, a consensus view of the many, many institutions of all kinds, public and private, that come together within the American Council on Education. That is a view held and expressed in the telegram read into our record today. It is the view of not all—we are not unanimous—if we were unanimous about anything I would worry—not all, but the substantial majority of members of the American Council on Education.

Mr. **Ford**. In short, while the two approaches might be based on contrary hypotheses, they are not necessarily contradictory. What you are saying is on balance the approach of grants and loans in the campus-based programs is a more efficient way to achieve the stated goal of both approached.

Mr. **Bowen**. I tried to answer honestly a question posed to me as a question of choice. My honest answer is that the student assistance programs, the direct grants programs, would have a higher priority and would be preferred as a matter of choice.

Mr. **Ford**. Thank you very much.

Mr. **Cornell**. Mr. Chairman, the chairman is getting at the point, of course, that I support, the tax credit. I believe the administration is using this piece of legislation to head off the strong possibility that such legislation would be reported out by the Ways and Means Committee. But, aside from that, what do you consider in general should be the role of the Federal Government in regard to education? Just in a very general way.

Mr. **Bowen.** I think the role of the Federal Government with regard to education should be to promote access, as the chairman of this subcommittee has said, on the part of individuals to a great variety of educational opportunities across the country. That should be done not only because as a people we have an interest in each individual developing individual talents to the fullest, but also because we have an interest as a society in having an educational system that encompasses people from all kinds of backgrounds, hopeful always that they will learn from each other.

So I would see the Federal Government as having an important responsibility to promote access. I would also see the Federal Government as having a very important responsibility for basic research and for the advancement of knowledge, responsibility that is reflected in part in the activities of the National Science Foundation and in the NIH, in many other areas.

I would see the Federal Government as having major responsibility for the major research libraries. I would see the Federal Government as having responsibility for various kinds of graduate education encouraging development of talent that is going to over the long term benefit this country. Those would be the areas that would come to my mind at once as areas of particular Federal responsibility as far as higher education, the advancement of learning is concerned.

Mr. **Cornell.** Would you agree with the general statement that the Federal Government should provide the opportunities so that no matter where an individual lives, in what part of the country or for that matter what part of the State that he has equal opportunity for education?

Mr. **Bowen.** Yes. Those can be hard words to define as I am sure you know very well.

Mr. **Cornell.** If we take a State that has a low per capita income, for example, another State has a very high one, I think it is unfair that a person because of accidents of birth happens to be born in one State or one part of the State should have less opportunity for education than another. It seems to me that is where the Federal Government should come in to equalize that opportunity.

Mr. **Bowen.** I would put my stress much more on individuals in trying through the mechanism of the Federal Government to enable individuals to attend institutions not just in their own States—I don't see the problem so much in just State terms. I see the problem as the chairman of the subcommitee sees it and therefore——

Mr. **Cornell.** I am not talking just about higher education. I am talking education in general, that there be equal opportunity for education no matter where a person happened to live.

Mr. **Bowen.** There you take us into an enormous terrain and I think that I push my limits when I seek to represent the American Council on Education within the area of higher education. I know I would exceed those limits if I tried to speak to you either philosophically or economically about the whole of elementary and secondary education. I would not pretend to do that. Within higher education my strong inclination would be to put the emphasis on access for individuals which is where I believe we have put it and where I believe we ought to put it.

Mr. **Cornell**. Thank you, Mr. Chairman.

Mr. **Ford**. Thank you very much, President Bowen. I want especially to thank you for missing your transportation back and taking the extra time that we required by reason of our changes. I look forward to working with you in the future on the legislation.

I hope you will give us some additional material for the record along the lines that I suggested with respect to State cooperation.

Mr. **Bowen**. We will certainly do that. Let me say again how much I appreciate this opportunity and how much I appreciate your interest and, if there are other ways we can help, please let us know.

[The material referred to above follows:]

[Memorandum]

American Council on Education,
Washington, D.C., February 16, 1978.

To: Hon. William Ford, Chairman, Subcommittee on Postsecondary Education, U.S. House of Representatives.
From: Charles B. Saunders, Jr., Director of Governmental Relations.
Subject: State Student Incentive Grants.

During the February 9 hearing of the Subcommittee on Postsecondary Education, you asked President William G. Bowen of Princeton University, testifying on behalf of the American Council on Education, to provide further information on the desirability of making State Student Incentive Grants portable from state to state.

ACE strongly supports the principle of portability for the SSIG program. In our recommendations for changes in Title IV of the Higher Education Act which we submitted to the Subcommittee in September, 1975, we made the following specific suggestions:

"Since the State Student Incentive Grant program was established in the 1972 Amendments, the states have made impressive progress in developing their own student aid programs . . . We feel that this trend should be encouraged, and that states should assume a growing share of responsibility for assuring student choice of postsecondary education. Therefore, we recommend a gradual expansion of SSIGs from an annual authorization of $150 million in FY 1977 to $350 million for both new and continuing grants by FY 1981.

"Enlargement of this program as an instrument of national policy necessarily carries the obligation to assure comparable national standards of eligibility for state grants. SSIGs should be available to students attending both public and private institutions, but not all states now permit this. Students attending institutions outside their home states, and those attending on less than full-time basis, are excluded from many programs.

"We recommend, therefore, that by FY 1979, portability of awards and eligibility of students at both public and private institutions be made conditions for state participation in the program."

The education amendments of 1976 (PL 94–382) only partially adopted these recommendations. Eligibility for SSIGs was extended to students at both public and private institutions, as a condition for state participation, but no action was taken on the issue of portability. Neither was action taken on our recommendations to increase the authorization ceilings for SSIG and to eliminate the separate authorizations for initial and continuing grants.

We would be glad to provide any further information.

Mr. **Ford**. Thank you very much.

Now we will call a panel consisting of Frank Matsler, executive director, Board of Regents of State Colleges and Universities of Illinois; Paul E. Bragdon, president, Reed College, Portland, Oreg.; Harold McAninch, president, Joliet Illinois Community College, Joliet, Ill.; Andrew Billingsley, president, Morgan State University, Baltimore, Md.; and Father Timothy Healy, president, Georgetown University, Washington, D.C.

Would you gentlemen come forward and proceed in the order I called your name?

We will withhold questions until all of you have had an opportunity to make your presentation and at this point—I hear no objection—the prepared statements that you have presented to the committee will be inserted in full in the record at the beginning of each of your testimonies, beginning with Mr. Matsler.

[The summary testimony of Franklin Matsler follows:]

SUMMARY TESTIMONY OF DR. FRANKLIN G. MATSLER, EXECUTIVE DIRECTOR, BOARD OF REGENTS, STATE OF ILLINOIS, AMERICAN ASSOCIATION OF STATE COLLEGES AND UNIVERSITIES (AASCU)

AASCU believes that President Carter, Representative William Ford, Representatives Carl Perkins, Frank Thompson, John Brademas, Paul Simon, Michael Blouin, and others who are supporting the Middle Income Student Assistance Act should be congratulated for their strong support of important new legislation to provide additional assistance to middle-income as well as lower-income students, to help them meet the rising costs of college.

Speaking for myself, I am particularly pleased that Representative Paul Simon from our state was one of the first sponsors of this legislation.

The 325 colleges and universities which are members of AASCU enroll very large numbers of students from middle and lower income level families who desperately need additional student aid to attend college.

Because extensive analyses have already been made by Representative Ford and his staff, dealing both with the proposed legislation and with its assistance to students at different income levels, I will not elaborate further, except to say that our association will be happy to work with you for passage of this legislation.

PANEL PRESENTATION: FRANK MATSLER, EXECUTIVE DIRECTOR, BOARD OF REGENTS OF STATE COLLEGES AND UNIVERSITIES, ILLINOIS; PAUL E. BRAGDON, PRESIDENT, REED COLLEGE, PORTLAND, OREG.; HAROLD McANINCH, PRESIDENT, JOLIET ILLINOIS COMMUNITY COLLEGE, JOLIET, ILL.; ANDREW BILLINGSLEY, PRESIDENT, MORGAN STATE UNIVERSITY, BALTIMORE, MD.; AND FATHER TIMOTHY HEALY, PRESIDENT, GEORGETOWN UNIVERSITY, WASHINGTON, D.C.

STATEMENT OF FRANK MATSLER, EXECUTIVE DIRECTOR, BOARD OF REGENTS OF STATE COLLEGES AND UNIVERSITIES, ILLINOIS

Mr. MATSLER. Thank you, Mr. Chairman.

I represent the American Association of State Colleges & Universities. Our association believes that President Carter; Representative William Ford; Representatives Carl Perkins, Frank Thompson, John Brademas, Paul Simon, Michael Blouin, and others who are supporting the Middle Income Student Assistance Act, should be congratulated for their strong support of important new legislation to provide additional assistance to middle-income as well as lower income students, to help them meet the rising costs of college.

Speaking for myself, I am particularly pleased that Representative Paul Simon from our State was one of the first sponsors of this legislation.

The 325 colleges and universities which are members of AASCU enroll very large numbers of students from middle and lower income level families who desperately need additional student aid to attend college.

I am very aware, Mr. Chairman, that more and more complaints are from those families in the marginal salary range, say, of $16,000 to $18,000, where little or no funds are available, and I understand you have made some statements along that line, too.

Because extensive analyses have already been made by Representative Ford and his staff, dealing both with the proposed legislation and with its assistance to students at different income levels, I will not elaborate further except to say that our association will be happy to work with you for passage of this legislation.

The board of directors for the American Association of State Colleges and Universities last night incidentally did make a statement that they would approve of this type of legislation over the tax credit legislation. Thank you.

Mr. FORD. Thank you very much. Mr. Bragdon.

STATEMENT OF PAUL E. BRAGDON, PRESIDENT, REED COLLEGE, PORTLAND, OREG.

Mr. BRAGDON. Mr. Chairman, I would be remiss if I did not at this time—even though it represents a repetition of what President Bowen said—I would be remiss in not expressing my appreciation for your efforts and for those of other members of this committee, members of the Senate, and the administration in forwarding the proposals that were unveiled yesterday and which I now understand have been reduced to a bill for under your sponsorship and with many other members of this committee and of the House signing on the bill.

We do appreciate it very much.

Secondly, I would like to underscore my support for the remarks that President Bowen made, particularly with reference to the SEOG's and the SSIG's, and possibly underscore some of the things that you indicate by your questions are of concern to you and the other members of the committee.

As you know, the National Association of Independent Colleges and Universities met here in this city and adjourned on Tuesday. You were good enough to come and speak to that group.

I would like to bring to your attention and to the other members of the committee that this association of some 800 colleges and universities did express unanimously their appreciation for the current efforts by Members of Congress and the administration to address the needs of middle-income families through present Federal student aid programs.

Also adopted unanimously by that organization representing over 800 of the independent institutions in the country was this specific resolution:

> Recognizing the exclusion of most middle income families from the benefits of present Federal student aid programs, NAICU has identified as a major priority, providing relief to those families in meeting the increasing costs of higher education, and therefore supports those forms of assistance that are basically equitable and that are both tuition and need sensitive.

Both of these resolutions were passed before the White House press conference yesterday and before the introduction of the bill in the

House today. But I am sure that the resolutions would embrace with enthusiasm those efforts. I think I would say, however, that that embrace with enthusiasm would be coupled with the hope that a specific bill would provide for a program of balanced funding of basic grants and campus-based programs assuring choice as well as opportunity.

I was a little surprised to learn from press accounts that the basic grant available to students all across the income range from $17,000 to $25,000 would be limited to a flat rate of $250 under the bill. I was also surprised to learn that the only additional funds proposed to help all those students would be in the form of additional work-study jobs or subsidized loans. While there may be a good rationale for this approach—and the overall effort to expand eligibility for basic grants to the $25,000 income range is certainly to be enthusiastically supported—it does seem to me that the subcommittee might want to consider both adjustments of the basic grants formula to maintain the notion of awards being proportional to income all across the income spectrum up to $25,000, and providing supplemental support in the form of additional grant funds under the SSIG and/or SEOG programs instead of relying wholly on work-study and loans.

Some earlier questions spoke to the issue of the tuition tax credit that is before the Senate and supported by many in this body.

I would like to bring to your attention the views of the membership of the National Association of Independent Colleges and Universities. The following resolution was adopted, I believe also unanimously:

> Whereas the financial plight of middle-income families has been dramatically focused by the growing interest in tuition tax credit proposals and whereas there are now serious congressional and administrative initiatives for assistance to middle-income families which involve substantial expansion and refinement of existing student aid programs, therefore be it resolved the National Association of Independent Colleges and Universities assigns highest priority to the expansion and refinement of student assistance programs, and be it further resolved that if tuition tax credit proposals are seen as the only feasible plan for providing assistance to middle-income families, the assembly calls for a program of tuition tax credits which reflects both the level of family income and the cost of higher education.

I would add, I personally favor the route of the refinement and expansion of the existing Federal programs, and I would take exception to all of the tax credit proposals that I have seen thus far for their failure to be sensitive to family income and the costs of the higher education involved.

Thank you very much, Mr. Chairman.

[The complete written statement of Paul Bragdon follows:]

STATEMENT OF PAUL E. BRAGDON, PRESIDENT, REED COLLEGE, PORTLAND, OREG.

My name is Paul Bragdon, and I am president of Reed College, a small independent, nonsectarian liberal arts college for men and women located in Portland, Oreg. I also chair the Government Relations Advisory Council of the National Association of Independent Colleges and Universities. I am pleased to be here to talk about a matter of common concern—preserving educational opportunities and choices for young men and women from middle income families.

The educational enterprise is a labor-intensive one, and there is little prospect of increasing productivity and lowering costs as much of industry has through the seeming magic of new technology. Our costs have risen, and continue to rise in these inflationary times. And with increased costs have come increased tuitions. All of us in higher education have been concerned about rising tuitions and their impact on our students and their families. Those of us in the private or independent sector, where the price tag attributable to increased costs cannot be offset by the increased taxpayer tuition subsidies available to our sister institutions in the public sector, have been particularly alarmed by the implication of rising tuitions.

I don't enjoy talking to good students at Reed College who want to stay there, but wonder how they're going to manage it financially. It's worse when they tell me they're going to have to leave. I don't like it when an applicant who wants to come to the college and whom we want to come tells the Dean of Admissions that he or she can't afford to come. I don't like to see students, working full or part-time, obtaining financial aid, whose commitment to continuing at the college impels them to undertake staggering loan commitments. And it's no pleasure to respond to parents' letters, of which the following is typical:

> In this uncertain world there is little by way of material things that a parent can give which would assure a secure future. The best we can do is to provide the best educational opportunity that the child's capable of and hope that the child will be as well-equipped as possible to cope with life and the future.

This letter, like many others, then notes that financial assistance is not available to the student, and goes on to describe financial circumstances demonstrating that support would be warranted.

I have to confess that our own best efforts—12% to 14% of our budget is allocated from our own funds for student assistance—do not begin to meet the problems I've described. The provisions of the various programs for student assistance in the 1972 and 1976 amendments to the Higher Education Act, and the appropriations supporting them, indicate a concern and a commitment through the years in the Congress. Regretfully, these programs, significant though they are, do not do all that cries out to be done. In sum, our joint efforts to date have not been enough to meet identifiable need, particularly in reaching middle income families.

I am very pleased, then, that the concern for the middle income family is as great in the Congress and the Administration as it is on the campus. I am impressed that, in a time of scarce resources, competing worthy needs and an appropriate concern for bringing the budget into balance over time, there is a will and determination in the Congress and by President Carter to make significant new investments in our most significant resource, the young men and women of our country, and to expand the net of eligibility to include more of the middle income group.

I can assure you that my views are commonly held. The National Association of Independent Colleges and Universities, representing 800 independent institutions across the country, concluded its annual meeting here on Tuesday. Just about forty-eight hours ago the membership unanimously noted with appreciation the current efforts by members of Congress and the Administration to address the needs of middle income families through Federal student aid programs.

The following resolution was also unanimously adopted:

> Recognizing the exclusion of most middle income families from the benefits of present Federal student aid programs, NAICU has identified as a major priority, providing relief to those families in meeting the increasing costs of higher education, and therefore supports those forms of assistance that are basically equitable and that are both tuition and need sensitive * * *.

The foregoing resolution is to be considered in the context of an overall policy statement, approved earlier at the same meeting, which reads as follows:

> The main focus of attention for the 1978–79 legislative deliberations should be on amendments to Title IV of the Higher Education Act which will (a) consolidate and further expand upon the gains previously registered in meeting the needs of students from low-income families, (b) *expand the scope of federal student aid programs to embrace the ever-growing numbers of students from middle income families who are finding it increasingly difficult to meet the expenses of higher education*, and (c) refine the operations of the federal student aid programs more effectively to complement and reinforce the operations of state student aid programs." (Italic supplied.)

Both of the foregoing resolutions were adopted prior to the emergence of the program announced at the White House yesterday, of course, but there can be no doubt that the commitment of new funds to student assistance and the expansion of eligibility to include more students from middle income families would be embraced with enthusiasm. I would hope, as would many of my colleagues, that the specific bill would provide for a program of balanced funding of Basic Grants and campus-based programs, assuring choice as well as opportunity.

I was a little surprised to learn from press accounts that the Basic Grant available to students all across the income range from $17,000 to $25,000 would be limited to a flat rate of $250 under the bill. I was also surprised to learn that the only additional funds proposed to help all those students would be in the form of additional work-study jobs or subsidized loans. While there may be a good rationale for this approach—and the overall effort to expand eligibility for Basic Grants to the $25,000 income range is certainly to be enthusiastically supported—it does seem to me that the Subcommittee might want to consider both adjustments of the Basic Grants formula to maintain the notion of awards being proportional to income all across the income spectrum up to $25,000, and providing supplemental support in the form of additional grant funds under the SSIG and/or SEOG programs instead of relying wholly on work-study and loans * * *

In closing, I want to express once again my appreciation for the evidence of interest in our students. Like President Bowen, I am prepared to assist the Subcommittee in any way possible in the significant task ahead. Although I do not represent the National Association of Independent Colleges and Universities today, I am confident that Dr. George Rainsford, President of Kalamazoo College and Chairman of the Board of Directors of the Association, and Dr. John Phillips, President of the Association, are also prepared to do anything they can to help in the development of the program.

Mr. Ford. Counsel is just calling my attention to the figures running through fiscal 1977, 1978, and 1979 on the SSIG going from $60 million in 1977 to $64 million in 1978, and $77 million in 1979. These are not really large amounts compared to the totality of what we are trying to do, but there is a recognition in the budget of the need to increase it. There is very strong support from everyone we talk to in trying to put something together for the SSIG program because it has an appeal to a whole variety of different points of view, not the least of which that it produced money and has successfully produced money.

Not all of the matching programs and inducement programs that we have had in the past actually produced more resources, but this has.

As you note, the legislation pending before this committee does contemplate a very substantial increase in the SEOG's program in its second year. We are painfully conscious of the budget restraints that we are dealing with in the first year of this legislation. But would you consider the shift within the constraints of the total figures now committed by the administration for this year of money from work study to SEOG's as being a wise shift of funds? Would it be more efficient—if you were going to move, say, $50 million, would the $50 million produce more in the SEOG program than it does in the work-study program?

Mr. Bragdon. Mr. Chairman, it would be purely an expression of personal opinion, and not one based on intensive study at that, but I certainly think that this suggestion merits very serious consideration by the committee and I personally would approve of such a study. I am painfully aware, facing budget problems as we do at colleges and universities, of the constraints under which you are operating and the need to watch the budgetary ceiling of the composite package.

I think that there is at least one other possibility which is probably worthy of consideration. That would be to adjust the basic grants formula to maintain the notion of awards being proportional to income all across the income spectrum up to $25,000 instead of leaving it at the proposed flat $250 rate and then providing supplemental support in the form of additional SEOG funds. I think that is an alternative that is certainly worthy of examination.

Let me also take the opportunity to say I was delighted when I actually did see your bill and that which other colleagues of yours have joined in sponsoring. I was just delighted to see the proposal for the 1980 fiscal year with respect to the SEOG. I think it is something, as you could tell from President Bowen's testimony and my own additional remarks—it is something we all welcome and appreciate.

Mr. FORD. President McAninch.

STATEMENT OF HAROLD McANINCH, PRESIDENT, JOLIET ILLINOIS COMMUNITY COLLEGE, JOLIET, ILL.

Mr. McANINCH. Mr. Chairman, and members of the committee, I do appreciate the opportunity to appear before the committee.

You have a copy of our prepared statement, so I won't repeat it. I would like to summarize and highlight certain points, however.

I serve as the chairman of the Commission on Governmental Affairs of the American Association of Community and Junior Colleges, but since these proposals have developed so rapidly, I can only give you my personal reactions. I do not represent the official position of AACJC for, quite frankly, there has been no time to consider and evaluate any of the proposals under discussion. In fact, Mr. Chairman, I would like the privilege to "revise and extend my remarks" after more time for reflection. It appears to me, Mr. Chairman, that we should applaud the initiatives taken by at least three parties. In the order of their public notice:

First, by Senator Pell in his plan announced last week in his home State to make a simple change in the rate of the BEOG family contribution schedule of parental discretionary income that would make a total of 3.5 million students eligible for a "Pell Grant." As I understand the proposal, it would cost about $1.2 billion more per year.

Second, the Middle Income Student Association Act developed, under your leadership, Mr. Chairman, and with the other members of the Education and Labor Committee—was, I understand, discussed with members of our AACJC staff and other major higher education associations last week. I am told that this was a very far reaching and comprehensive "package" that in total would be about $2 billion more.

Third, yesterday morning President Carter announced a $1.2 billion increase in student aid that, as far as we can understand, incorporates some of the concepts of yours.

Therefore—even without knowing the details of each—I feel confident in expressing the appreciation of my colleagues in the 1,000 2-year institutions across the country, and the over 4 million students, for the obvious concern and action to attempt to direct $1.2 billion to $2 billion more into Federal student aid programs.

I believe there are at least six agreements by the chairman of the Senate Subcommittee on Education, the leadership of the House Education and Labor Committee, and the President and key advisers in the administration.

We list those for your consideration in our statement.

We would like to indicate one major impression that we received from the legislation that is being proposed. It appears that the Federal policy is moving toward one grant program—BEOG, one loan program—GSL, with the college work study used to cover the "cracks" between the programs, summer work, and parental assistance. For me, the shape on the horizon, as vague as that might be at the moment, is encouraging. The encouragement is supplied by the dedication, action, and support indicated by the three proposals that at least $1.2 billion more should be placed in student aid.

We do have some of the same concerns that Representative Buchanan pointed out this morning, that is, there is no full funding, and, if proration does take effect, that it not be at the expense of the low-income student. We laud and support help for the middle-income student. That is the purpose of this legislation and it is greatly needed. I hear it every day from the constituents in my district. But it is just as important to continue the program of opportunity for the low-income students. We believe a provision should be included to protect that low-income student in the legislation. Of course, at the appropriate time, the removal of the half-cost limitation in BEOG is very important to the community college system. We strongly believe, in our colleges, in this point.

We look forward to working with you in the House and the administration perfecting the details of these proposals which lead to the accomplishment of our motto and comments in colleges across the Nation; "toward universal opportunity."

Mr. Ford. Thank you very much.

[The complete written statement of Harold McAninch follows:]

TESTIMONY BY HAROLD MCANINCH, PRESIDENT, JOLIET (ILLINOIS) COMMUNITY COLLEGE

Mr. Chairman and Members of the Subcommittee:

My name is Harold McAninch, President of Joliet (Illinois) Community College. I serve as the Chairman of the Commission on Governmental Affairs of the American Association of Community and Junior Colleges, but since these proposals have developed so rapidly, I can only give you my personal reactions. I do not represent the official position of AACJC for, quite frankly, there has been no time to consider and evaluate any of the proposals under discussion. In fact, Mr. Chairman, I would like the privilege to "revise and extend my remarks" after more time for reflection. It appears to me, Mr. Chairman, that we should applaud the initiatives taken by at least three parties. In the order of their public notice:

> First, by Senator Pell in his plan announced last week in his home state to make a simple change in the rate of the BEOG family contribution schedule of parental discretionary income that would make a total of 3.5 million students eligible for a "Pell Grant". As I understand the proposal, it would cost about $1.2 billion more per year.
>
> Second, the Middle Income Student Association Act [redacted] developed under your leadership, Mr. Chairman, and with the other members of the Education and Labor Committee - was I understand discussed with members of our AACJC staff and other major higher education associations last week. I am told that this was a very far reaching and comprehensive "package" that in total would be about $2.0 billion more.
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> Third, yesterday morning President Carter announced a $1.2 billion increase in student aid that, as far as we can understand, incorporates some of the concepts of the other.

Therefore - even without knowing the details of each - I feel confident in expressing the appreciation of my colleagues in the 1000 two-year institutions across the country, and the over 4,000,000 students, for the obvious concern and action to attempt to direct $1.2 billion to $2.0 billion more into federal student aid programs.

I believe there are at least six agreements by the Chairman of the Senate Subcommittee on Education, the leadership of the House Education and Labor Committee and the President and key advisors in the Administration: xxx ①

1 - There is a need not now being met that deserves immediate action.

2 - The BEOG program is now the foundation of federal student aid and should be expanded to meet these new requirements.

3 - The major loan program - GSL - needs to be expanded to give relief to some of those who have "cash flow" problems with one or more children in college - up to $40,000.

4 - The Orshansky formula in BEOG is too restrictive for lower incomes and some change must be made, if possible, by adopting the BLS low index.

5 - The independent student is not being treated fairly in BEOG, and at a minimum, needs the living allowance tripled or quadrupled. This would only be equity.

6 - An increase in College Work Study is desirable.

In closing, I would like to indicate one impression. It appears that the federal policy is moving toward one grant program - BEOG, one loan program - GSL with the College Work Study used to cover the "cracks" between the programs, summer work and parental assistance. For me, the shape on the horison, as vague as that might be at the moment, is encouraging. The encouragement is supplied by the dedication, action and support indicated by the three proposals that at least $1.2 billion more should be placed in student aid. ②

We look forward to working with you, Senate, House and Administration in the perfecting of the details of these proposals to work on an AACJC motto - "Toward Universal Opportunity".

Mr. FORD. President Billingsley.

STATEMENT OF ANDREW BILLINGSLEY, PRESIDENT, MORGAN STATE UNIVERSITY, BALTIMORE, MD.

Mr. BILLINGSLEY. Thank you very much, Mr. Chairman, and members of the subcommittee.

My name is Andrew Billingsley. I am president of Morgan State University in Baltimore, but I appear today on behalf of the National Association for Equal Opportunity in Higher Education.

I want to thank you, Mr. Chairman, for the leadership you have given to this issue consistently and we also would like to applaud the President for the new initiatives on behalf of higher education.

Our association represents 105 historically black colleges, including public 2-year institutions, as well as graduate and professional schools. Our institutions are located in 15 Southern and 4 Northern States and the District of Columbia. They enroll over 220,000 students and continue to account for about one-half of all black college graduates. We are proud that a large percentage of black professionals throughout the United States are graduates of our colleges and universities.

We are pleased to express our support for legislation which would provide for the infusion of additional resources into the basic educational opportunity grant program and the expansion of that program to include students from middle-income families.

For the most part, the students who attend our institutions are economically needy students, as defined under existing financial aid guidelines. Nevertheless, there is a significant percentage of black students and white students attending our institutions from middle-income families whose needs are not being met by current programs.

We recently polled our membership and discovered that there is a strong sentiment among the presidents in our association to provide relief to needy students from middle-income families. We, accordingly, endorse the basic philosophy and concept of extending assistance to students of middle-income families.

We further endorse the procedure—the extension of the BEOG program—as a practicable and economically feasible means of extending that assistance.

There are, however, three cautions:

(1) We ask that the assistance provided middle-income families be additive, to be a true supplement to the existing financial assistance programs for the economically disadvantaged;

(2) We ask also that the extension of the BEOG program not divert efforts from the strengthening and enhancement of the existing BEOG program in providing adequate assistance to the low-income needy.

(3) Finally, we ask that appropriate attention be given to additional costs institutions must inevitably incur as a result of expanding the BEOG program to a new clientele, even though the program is noncampus based.

We state our first caution, that the current BEOG program be truly supplemented with additional resources to meet the needs of the additional middle-income students to be served, because of our concern that the truly remarkable progress made toward achieving increased access for those qualified for postsecondary education not be reversed.

It has been within our times that we have dramatized that economic deprivation need not be an insurmountable barrier to access for the needy worthy to postsecondary education and, through postsecondary education, to the mainstream of society. Student financial assistance has been the primary mechanism by which progress toward increased access has been achieved. The BEOG program has been the mainspring of that mechanism.

It is proper that we expand student financial assistance to accomplish other socially desirable goals such as serving middle-income students. However, we should not do so at the cost of forgoing the gains achieved in access. We can avoid retrogression and avoid diverting BEOG funds intended for low-income needy students by assuring that adequate additional funds are injected into the BEOG program to meet the additional demands of new middle-income clientele.

We should also continue to make progress in strengthening and improving the existing BEOG program for the low-income students even as we expand the program to include middle-income students. The position of the independent student must be clarified.

The half-cost provision of the BEOG grants must be restudied. Funding the current program up to its maximum authorized limits must be accomplished. In brief, progress in perfecting the existing system must proceed concurrently with the expansion of the system.

It should not be overlooked that the BEOG program imposes a cost to the postsecondary institutions even though it is a non-campus-based program. As the program is expanded, institutions can expect to be deluged with inquiries from parents and students seeking assistance. Counselors, advisers, and financial consultants must be available. The expanded program, accordingly, should include funds to offset the increased cost of postsecondary institutions.

In summary, our association enthusiastically endorses expansion of the BEOG program and the other modifications incorporated into your bill.

We hope that expanding this program to additional students will not detract from the services available to existing students.

Finally, we would like to urge that the cost to these institutions of this expanded program be considered in your legislation.

Thank you, Mr. Chairman, for this opportunity of expressing our support for this program.

Mr. Ford. Thank you very much.

[The prepared statement of Andrew Billingsley follows:]

STATEMENT BY ANDREW BILLINGSLEY, PRESIDENT, MORGAN STATE UNIVERSITY, BALTIMORE, MD.

My name is Andrew Billingsley. I am President of Morgan State University in Baltimore. Maryland. I thank you for this opportunity to appear before the Subcommittee on Post Secondary Education under the Sub-Committee on Education and Labor of the U. S. House of Representatives. I am testifying on behalf of the National Association for Equal Opportunity in Higher Education.

Our Association, ~~whose acronym is NAFEO,~~ represents 105 historically black colleges, including public two-year institutions, as well as graduate and professional schools. Our institutions are located in 15 Southern and four Northern states and the District of Columbia. They enroll over 200,000 students and continue to account for about one-half of all Black college graduates. We are proud that a large percentage of Black professionals throughout the Unted States are graduates of our colleges and universities.

We are pleased to express our support for legislation which would provide for the infusion of additional resources into the Basic Educational Opportunity Grant Program and the expansion of that program to include students from middle income families.

For the most part, the students who attend our institutions are economically needy students, as defined under existing financial aid guidelines. Nevertheless, there is a significant percentage of Black students and white students attending our institutions from middle income families whose needs are not being met by current programs.

We recently polled our membership and discovered that there is a strong sentiment among the presidents in our Association to provide relief to needy students from middle income families. We, accordingly, endorse the basic philosophy and concept of extending assistance to students of middle income families.

We furthermore endorse the procedure- the extension of the BEOG Program - as a practicable and economically feasible means of extending that assistance.

There are, however, three cautions: (1) We ask that the assistance provided middle income families be additive, to be a true supplement to the existing financial assistance programs for the economically disadvantaged. (2) We ask also that the extension of the BEOG Program not divert efforts from the strengthening and enhancement of the existing BEOG Program in providing adequate assistance to the low-income needy. (3) Finally, we ask that appropriate attention be given to additional costs institutions must inevitably incur as a result of expanding the BEOG Program to a new clientele, even though the program is non-campus based.

We state our first caution, that the current BEOG Program be truly supplemented with additional resources to meet the needs of the additional middle income students to be served, because of our concern that the truly remarkable progress made toward achieving increased access for those qualified for post-secondary education not be reversed.

It has been within our times that we have dramatized that economic deprivation need not be an insurmountable barrier to access for the needy-worthy to post-secondary education and, through post-secondary education, to the mainstream of society. Student financial assistance has been the primary mechanism by which progress toward increased access has been achieved. The BEOG Program has been the mainspring of that mechanism.

It is proper that we expand student financial assistance to accomplish other socially desirable goals such as serving middle-income students. However, we should not do so at the cost of foregoing the gains achieved in access. We can avoid retrogression and avoid diverting BEOG funds intended for low-income needy students by assuring that adequate additional funds are injected into this BEOG Program to meet the additional demands of new middle clientele.

We should also continue to make progress in strengthening and improving the existing BEOG Program for the low-income students even as we expand the program to include middle-income students. The position of the independent student must be clarified.

The half-cost provision of the BEOG Grants must be restudied. Funding the current program up to its maximun authorized limits must be accomplished. In brief, progress in perfecting the existing system must proceed concurrently with the expansion of the system.

It should not be overlooked that the BEOG Program imposes a cost to the post-secondary institutions even though it is a non-campus based program. As the program is expanded, institutions can expect to be deluged with inquires from parents and students seeking assistance. Counselors, Advisors and Financial Consultants must be available. The expanded program, accordingly, should include funds to offset the increased cost of post-secondary institutions. x x x ①

In summary, our Association enthusiastically endorses the expansion of the BEOG Program to meet the needs of students from middle income families. We should not, however, weaken the existing BEOG which serves low-income needy students. Rather, we should provide adequate additional resources to serve the new clientele. We should continue to improve and perfect the existing program. Finally, the expanded program should take account of additional cost to the institutions who are eager to serve middle-income students through the expanded BEOG Program.

I thank you for providing me this opportunity to present these views on behalf of the National Association for Equal Opportunity in Higher Education.

Mr. **Ford.** Father Timothy Healy, president of Georgetown University.

We were hoping that John Brademas would return because he especially wanted to have an opportunity to visit with you while you were before the committee. We have been interrupted by another vote now, and perhaps if you could go ahead with your statement, we can come back and have the questions of the whole panel after the vote.

STATEMENT OF FATHER TIMOTHY HEALY, PRESIDENT, GEORGETOWN UNIVERSITY, WASHINGTON, D.C.

Father **Healy.** Thank you, Mr. Chairman.

I join everybody in being glad to be here. You have a copy of my prepared remarks and I apologize for the condition which it is in.

First, we were rushed by this whole procedure, and second, I am a compulsive reviser. I would like to start, as a couple of others who testified here this morning or this afternoon, with a personal note. I was born and bred on the east side of Manhattan and I am delighted that part of this whole movement has been stirred up by our own personal private city college educated Irish bred Senator from the east side of Manhattan.

To say he has provoked equal and opposite reaction would be ungracious, so let's just say he provoked equal reaction. I am speaking for Georgetown University obviously, and then for the 27 universities which were founded by Jesuits and the one Georgetown which was founded by an ex-Jesuit.

In our discussions we took the liberty of considering the two proposals as a matter of choice, and we considered seriously the tax proposals as addressed from three different quarters.

There is a great temptation to private higher education to seek tax credits because the whole process of tax credits removes the thrust from the budgetary process. A distant budget can self-destruct as we have seen Federal support programs for higher education self-destruct. If it is distant it is likely not to be noticed. If it self-destructs in individual pocketbooks it is likely to be noticed very clearly so the tax reduction or tax credit is a very serious possibility and temptation.

On the whole I think you will be pleased to know, Mr. Chairman, we resisted it. And the reasons for the resistance were simple. As is generally reported in the press, it is regressive and I don't think the time has come when a program should be launched which does not address any problems of the poor in the United States.

In addition, I do not think that a tax credit program would be publicly acceptable that rewarded people who made over $60,000 or $70,000 a year with Federal grants to help their children go to college instead of loans.

Finally, none of the proposals I have seen bear any relationship to a tuition trigger or any realistic relationship to the differential between the tuition charged roughly in public and private institutions.

In approaching the President's proposal despite Mr. Califano's eloquence this morning, we felt it needs also some adjustments although not serious ones, less serious ones than the tax credits. The first concerns flexibility and those items which are first controlled by an individual campus and, second, those which can be added on to the basic opportunity grant: in other words, the supplemental education opportunity grants.

It is our firm hope your own initiative in this reflects the Congress seriously and that it will in the very short future be enacted.

We join President Bowen in hoping for an amount of roughly $100 million for SEOG this year and the rest of the package, as you, yourself suggested, in the next year. The reasons we feel so strongly about that are quite simple. I am in a way answering Congressman Cornell's question which was put to an earlier panelist here. It seems that over the past 50 years higher education in America has taken a kind of continental shift and that consists of four stages or four steps.

The first of these is we have nationally decided that every talented kid should have access to higher education, whatever his background, whatever his race or color or how far he is from convenient locations, no matter how poorly he may have been trained.

In order to make that possible we have invented something which no other nation has ever thought of, that is the community college. And one of the things that is most magnificent about the whole community college endeavor in the United States of America, said bluntly and simply, is that the best way to find out if a kid can learn is to let him try.

The third step is still shakier. That is to guarantee to all citizens access to institutions of their free choice even if that choice is not enlightened, even if it is murky, and even sometimes, God help us, if it is wrong. I can remember I spent 7 years as vice chancellor for City University of New York with an operation called open-admission programs on public platforms.

I was asked, "What are the motives of these children in coming?" The answer is, "This is a republic and I am not God. They are here and as long as they are here I will try to teach them."

Finally, there is one other piece of Federal action I think—and this perhaps is due to my increasing years, I am growing increasingly worried about—I think it is in the interest of this Republic that the Federal Government take seriously its obligations to preserve those subsidiary institutions in this society which supports government and indeed makes democratic government possible. I am talking about labor unions, churches, schools, universities and the other natural groupings that have grown as we have grown, quite unplanned, grown like Topsy, but grown solidly and substantially to the tissue of our national life.

It seems to me that for private colleges and universities, and some of those institutions, but by no means not all of them, increasing the flexibility and moving some Federal dollars not from the poverty program but from other areas accessible to this community into the more flexible supplemental education opportunity grant is in the national interest.

Thank you, sir.

[The prepared statement of Father Timothy Healy follows:]

Testimony of Timothy S. Healy, S.J., President, Georgetown University, Washington, D.C.

Mr. Chairman, Ladies and Gentlemen:

My name is Timothy S. Healy, S.J. I am the president of Georgetown University, and was formerly the Vice-Chancellor for Academic Affairs at the City University of New York. I am testifying today on behalf of the 27 American colleges and universities founded by Jesuits and the one university - Georgetown - founded by an ex-Jesuit. I am also authorized to state that the Rev. Theodore M. Hesburgh, president of the University of Notre Dame, has joined the views that I express to you today.

It is a pleasure to be sitting here today testifying before the Congress on what is for us a choice among generous gestures. You will forgive the people here from independent higher education if we sound a bit out of breath. The developments of the last few months have for all of us has been swift and at times confusing. Both Congress and the administration for instance, have leapt over the first of our classic and traditional agenda items, the equalization of tuition charges, and addressed themselves to what is a principal but secondary one, easing the pressure on middle income tuition payers. You will pardon us if like the young lady in a Valentino movie, as the sheik sweeps her on to his galloping steed we mutter, "but sir, this is so sudden."

All this is not to say that we do not welcome this federal interest and the speed with which the government seems to be moving to help higher education. We are also delighted that we can stand here together, both public and private colleges and universities, and both applaud and, we hope, contribute to these initiatives

To that if you'll forgive me, I should like to add a personal note. I was born and bred on the east side of Manhattan, and I'm delighted that our own personal, private City-College-taught and Irish bred senator has had something, in fact a great deal, to do with both the interest and the generosity. To say that he has provoked an equal and opposite reaction would perhaps be ungracious. If we drop the word opposite, the reaction has been at the very least equal, and we are grateful.

The choice that faces anyone who testifies before you today is indeed a serious and a loaded one. The proposals that have been detailed in the press for the last six months concerning tax credits hold out a hope to higher education of federal support which could well be more lasting because more it is further removed from the regular budgetary process. It is far easier to slice into an abstraction like a budget than to raise peoples taxes. A distant budget can self-destruct, and voters won't much notice it. If it self-destructs in their own pocket book, they're likely to feel the jolt more seriously.

On the other hand, the proposal of the administration is direct and immediate and far less complicated. It is also a proposal on which both public and private higher education can in large measure agree. The weaknesses of both proposals appear to be identical. Neither one as it stands fully covers the target, the middle class tuition payer. Neither one as it stands creates the maximum freedom of choice for the individual student.

The surgery needed on the tax credit plan is extensive and deep. These plans, at least as generally reported in the press, appear to be far too regressive. It hardly seems appropriate at this late date to structure a program in which the very poor will get nothing. In addition, no tax credits scheme can be publicly acceptable which does not have a level on incomes and some reasonable cut-off point. Finally, for both private higher education and the middle income tuition payer, the tax credit system as now structured does not have an adaquate adaptation to differing tuition levels.

Despite the generous level of funding suggested, and the eloquent defense of its usefulness, the administrative proposal also needs adjustment to reach its goals. From the point of view of private higher education the first adjustment is an increase in funding for the Supplementary Educational Opportunity Grants. All of us here from private institutions would give the strongest possible encouragement to Congressman Ford's initiative as well as to the funding level that he is suggesting. The phrase, "next year", makes us rather nervous. The reason it does is that independent colleges have been brought blushing to that particular altar on so many occasions and left standing at it all alone, that we now contemplate setting up a pup tent under the apse. It is our most serious hope that Congressman Ford speaks for the Congress and for its settled intentions to increase SEOG funds and that some action will be taken this year.

The reason we feel so strongly about this is that the administration's proposal, while generous and enormously helpful, covers only a part of the spectrum. For instance it really creates an entitlement but does not call it such. In this sense it continues the Federal Government's reflection in Pell grants of what is quite clearly the will of the people, that every talented youngster should have access to higher education.

Where the President's proposal is incomplete is that without funds directed to preserving our dual system of higher education, in other words without the Supplementary Educational Opportunity Grants, we miss the second half of that entitlement. What we need is not only access for every talented student, but that he or she should also have freedom of choice. The last thing that we need to fear is competition in the higher educational market.

One final word. Having watched the development of public and private funding for higher education in this nation from up-close for some 30 years, I realize that no nation in the history of the world has provided so generously for the education of its people. That may sound like truism, but if it is, it's a proud and honest one. The missing piece now is our commitment to preserving our dual system, public and independent, to guarantee that the talented student has some liberty of choice as to where and how he studies. Higher Education in this country has made, both in the public and the private sector, a corporate act of faith in the capacity of American citizens - all of them. 50 state legislatures and the nation's Congress have supported this act of faith. From our most expensive private institution, all the way down to that magnificent American invention, the Community Colleges, this act of faith is our principal agenda, and it is of course a public agenda. We have not only said that we want a place where the mind of every talented youngster can grow. We have also said through the Community Colleges that the best way of determining whether he really is talented is to let him try. The missing piece now is our commitment to preserving our dual systems, public and independent, to guarantee that the talented student has some liberty of choice as to where and how he studies.

Forgive me if I see this thrust in a religious sense. It is from the book of Genesis that we derive the phrase, "In the image and likeness of God." I can think of no better way of honoring it than by creating this particular right for free men.

Mr. Ford. Thank you very much.

Let me, if I may, observe that at least three of you have articulated your concerns for the fact that what we do with these programs not jeopardize what we are already doing with the programs.

I particularly am appreciative, Father Healy, for your very concise comparison of the inherent threat to the existing programs for low-income children when one considers total Federal resources and the claim on the budget of tax credits. If we set in motion a process that seems to grow out of what is expediency as much as logic and it ultimately begins to claim a very substantial part of that which is labeled educational spending in the total budget, before we ever consider the current year's needs for BEOG's and SEOG's and the other programs we will be told that *x* billion dollars is already committed by way of a previously existing tax cut.

It has been my impression in our discussions with the administration that one of the strong factors in moving the President toward the idea of this approach as an alternative to the tax credit approach was that it, if carefully handled, is most likely to produce the assistance for the new population we seek to serve without shifting resources from the population we have already targeted resources toward.

I might say, Dr. Billingsley, that with regard to your statement in particular we have had very specific discussions in every stage of this. Secretary Califano and the President have been very strong in saying, "Don't try to deal with us on anything that in any way jeopardizes this program and amounts to a shift of resources." And this morning we went over this a little with the Secretary.

One of the characteristics of this approach that has a very strong appeal to many of us is that there is no way you can do what we wish to do for the new population in the programs without assisting and enhancing the programs for the population already served. We have learned, and some of us think we have learned in the most painful way, that people are willing to accept the fact that their brother and sister living down the street needs a little more help than they need so long as they know their Government is willing to help them, too, and that they are not wont to quarrel about someone else getting a little more who in fact needs a little more. But they are wont to quarrel about someone having access to a program that they are blocked out of completely on the basis of arbitrary measurements that don't make sense to them.

Telling somebody making $15,000 or $16,000 with five or six children to raise that they can well afford to pay for their own child's education is so ludicrous I can't imagine anyone here being willing to undertake that as a matter of political survival.

Yet, as a matter of policy, because we have been so stingy in fueling and funding those programs, that is in effect what we have been saying. We do not have in the legislation at this point specific language that says in so many words there will be no pro rata reduction of low-income participants. However, you will notice that, if you saw the charts that were used this morning by the Secretary, we take off $200 on the books above the existing level and use this device of moving out to the $8,650 level on a fair level basis and then start our decline. Then we get a lump and come down dramatically.

It is one of the expanations for why we don't have a neater looking line that goes from this point up here at zero income, zero assets, down to the $25,000 in assets because the only way that you can do it with the limited resources that we are dealing with is at the expense of the front part of the lump on the graph.

[Chart appears on p. 176.]

Mr. FORD. So long as that lump stays on the graph we are absolutely sure that we are not only not hurting the low-income student who has been helped so successfully, in my opinion, by this program, but when one compares the existing program with what we propose to do, we will enhance their participation. As one gets out beyond the $10,000 figure, you see better access to the guaranteed student loan program in a way that has not been possible with the increased encouragement for the various kinds of lending institutions to come into that business with some reward coming from the Government.

We are proceeding with the proper intent. I would like to reassure you that we recognize the danger of ending up with an authorization that produces a beautiful curve and then an appropriation that, because of pro rata reduction, really converts this into a plan by which you take it away from someone and give it to someone else.

From the plain crass approach of politics, that would be a rather stupid approach for us to take. Our staff got us onto that rather quickly and the admonitions from the President about the guarantees he wanted and the ultimate legislation for the protecion of low-income people, I think, is more than adequate.

We are really searching for a legislative way to insulate against any kind of slippage, but we are also trying to proceed in a responsible way that would obviate the necessity for a legislative brake or ratchet on the system. That is really what we are talking about, a ratchet system that we want to put more tension on the system but we don't want it to slide back after we put the tension on it.

With respect to the BEOG's program, you heard previous testimony about our failure, in the initial legislation that has been introduced, to recommend sharing some of the additional money for this year with SEOG's.

Would any of you like to comment further with respect to the advisability of shifting money from a program such as work-study to SEOG's if we are talking about a limited amount of money, as small perhaps as $50 million? Is it worthwhile to consider that kind of tinkering with the money and, if so, does it produce a benefit or are we really tinkering with something to make it look better for someone?

Mr. **Billingsley**. Our association, Mr. Chairman, has not taken a position on that kind of shift. My own personal view would be that some increase in the SEOG would be an appropriate thing to do even though I, too, appreciate the important place a mixture of programs including work-study have in the overall approach.

I would think it is important to also enable students to take advantage of the SEOG because the costs of education does vary tremendously and there could be a factor as well as the income of the family.

Mr. **Ford**. I would like to point out, as counsel has indicated to me, some things you might consider with regard to your comment, Dr. Billingsley, on the expected additional impact in terms of administrative costs to the schools, assuming the program generates the population use that we would anticipate.

In the fiscal 1979 budget the President has included $2.5 million for additional administrative allowances for BEOGS. The budget includes $11.5 million for administrative allowances for guaranteed student loans—these are add-ons—and $9.5 million to higher education institutions to increase the dissemination of consumer information.

Do you recall these are areas we touched on when we wrote the Higher Education Act of 1976? The President responded in his budget for 1979 by providing additional money in each of these areas which we pinpointed as problems for the education community in the passage of the 1976 act.

Father Healy, if it is in any way reassuring to you—I might point out that there is some question of conflict perhaps, but we overlook it—it has just been noted that counsel for the full committee and counsel for the subcommittee who have been drafting this legislation are both graduates of your law school. If they make very many mistakes and get us in trouble, we are happy to have you share the responsibility for their ineptitude.

Father **Healy**. Thank you, sir, I will stand by the law school.

Mr. **Ford**. I am sure you understand we stand fully able and willing to accept credit for everything that turns out well and assess blame for everything that doesn't turn out well. And I think it should be noted for the record—we don't do this often enough—that these people worked literally day and night in recent weeks in what, for any observer of the way the system works around here, has been a phenomenal display of bringing together a whole lot of experience and capability and getting it moving in one direction. The members of the staff of the full Committee on Education and Labor and the Postsecondary Education Subcommittee who did this include young ladies who spent last Saturday and Sunday throughout the day and the night typing the latest draft of the latest draft of the latest draft of somebody's bright idea, until it was finally put into the form that was understandable and acceptable to a great number of people. And there are a lot of people across the country that don't recognize how much talent there is behind us on a project of this kind.

I think, Father Healy, that while I went to a fine Methodist law school, nevertheless you seem to be doing very well, judging by the product of your school that we deal with here on this committee.

Father Healy. Thank you very much, sir.

Mr. Ford. Do you have any questions?

Father Cornell is staying for the vote. We had a request from Representative Coughlin to appear at this point to testify in favor of tax credits which I asked him to defer until after the panel. I don't see him here now and I will wait a few moments to make sure that we don't cut him off at the elevator.

With that, I would like to thank you gentlemen for your support and solicit your continued close scrutiny of the progress of this legislation and ask you to continue to scrutinize what has been proposed to assist us in doing the best job possible within the limits of money and politics that we can achieve.

I have not heard anyone, Father Healy, articulate in gentleman's terms as well as you have the temptation that faces my colleagues with respect to tax credits. I haven't heard as much—I should say demagoguery—I haven't heard as much hyperbole with respect to anything around here as I heard erupt last fall. I must say, however, to give the devil his due, if I could use that expression, that but for the firestorm of reaction that brought everybody out of their seats pleading for the middle class, we would not be here today with a serious expectation of success in doing what people sitting where you are sitting today, including those of you sitting here today, have been urging us to do for many years.

I remember our colleague, Mrs. Green from Oregon, attempting some of these things when I first came on this committee, and it was considered the height of illiberality to even consider such an approach. We have matured considerably since then.

I am sure that those who have preceded me as chairman of this committee would relish the opportunity to sit where I sit and see, after all these years, the day arrive when we can discuss as dispassionately as we are the possibility of advancing higher education support for the kind of people this legislation is targeted for.

Thank you very much for your help and cooperation and particularly for your patience with us today.

The committee will stand in recess until next Thursday.

[Whereupon, at 2:40 p.m., the committee adjourned.]

MIDDLE INCOME STUDENT ASSISTANCE ACT

THURSDAY, FEBRUARY 16, 1978

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, in room 2261, Rayburn House Office Building, Hon. Robert Cornell presiding.

Members present: Representatives Ford, Cornell, Buchanan, and Quie.

Staff present: Thomas R. Jolly, subcommittee counsel; Patricia F. Rissler, subcommittee clerk-legislative associate; William Gaul, committee associate counsel; and Christopher Cross, minority staff director.

Mr. Cornell [presiding]. The Subcommittee on Postsecondary Education is meeting again today to receive testimony on the Middle Income Assistance Act, a proposal designed to assist the hard-pressed working class middle-income family to achieve its goal of educating their children. We have been gratified by the overwhelming expression of support for this legislation from a great variety of organizations and citizens.

As most of you know, Secretary Califano testified before in an unusual House-Senate meeting last week to explain in detail the administration's proposal.

Following his appearance, this subcommittee met to receive the reaction of the postsecondary education community, presidents of five colleges and universities testified in support of this proposal. Today we will hear from financial aid administrators, student groups, and State education officials.

We expect to conclude these hearings next week by receiving additional testimony from the administration and other witnesses.

Appearing this morning is Hon. Lawrence Coughlin who made a special request to present his views on this proposal.

We are very happy to have you here, Larry, and you may proceed as you wish.

[The prepared testimony of Hon. Lawrence Coughlin follows:]

Testimony of Hon. Lawrence Coughlin, a Representative in Congress from the State of Pennsylvania

I thank the Chairman for this opportunity to address this committee. Let me say from the beginning, that I applaud President Carter's recognition, albeit new found, of the desperate position of the midle-income Americans struggling to send their children to colleges and universities. I fully commend the purposes of President Carter's proposed program to provide for the added financial assistance for the expenses of higher education.

As sponsor of the House version of the Roth-Coughlin tax credit measure, as well as other tax credit legislation for more than eight years, I can only say that we, and the public, have finally gotten the attention of the Administration and the Congress to the need for education assistance for middle-income families.

However, I hope that this committee and the American public—especially the American educators—will take a very careful look at the merits of the legislative vehicle which Secretary of Health, Education, and Welfare Joseph Califano has stitched together in an obvious, hurried attempt to block Congressional support of education tax credits. The Carter-Califano proposal deserves intensive scrutiny.

After a year of listening to Administration arguments disclaiming the need for higher education relief for the middle-income American family, I am gratified that the Administration belatedly has admitted there is a problem. I must also admit that I am somewhat baffled with the Administration's proposal. After a year of claiming that a $250 tax credit is not needed, has little impact for the family and is too expensive, the Administration now touts a $250 grant program for middle income students. Administration officials after castigating the Roth-Coughlin tuition tax credit proposal as far too expensive at $1.2 billion, have now heralded an Administration package with the price tag of $1.4 billion.

It is also ironic that hearings were called on this proposal one day after the President's announcement of this program when every effort to schedule hearings on education tuition tax relief has been rebuffed by the House Ways and Means Committee in the past five Congresses.

In fact, it is an unjustified slight to the many Members who, in good conscience, have been working for years on behalf of their constituents to get a fair hearing on this vital education issue.

The Administration proposal to increase Federal student grants and loans programs to reach the middle-income families and students has several problems, as I see it. First, I believe that simply pumping more Federal money into the present problem-ridden and patchwork Federal education assistance programs would not be the most effective use of the taxpayers' dollars. A major share of the funds would go into increasing administrative and bureaucratic overhead, further inflating the expensive and duplicative bureaucratic processes, and resulting in a net loss of direct aid to the needy student.

This administrative cost would not be limited to the Federal government alone, but would be magnified and expanded in the State governments, as well as in the educational institutions themselves.

A clear example of this is found with Michigan State University. According to a recent report, the university has had to hire 50 extra people just to keep up with the paperwork involved in loans to students attending the school.

Second, the Administration program requires an expansion of government red-tape and paperwork by requiring families to fill out yet another confusing and disconcerting financial disclosure form within the Basic Educational Opportunity Grant (BEOG) program. This proposal still grants the Federal bureaucrats in HEW the ultimate authority to decide who will get educational aid and under what conditions.

The current 11-page BEOG form has proved onerous and discouraging to both the prospective student and his family, as well as to the educational institutions. I, for one, am leary of forcing the hard-working middle-income taxpayer to fill out further government assistance forms—an admitted nightmare to which both educators and the public now object—and virtually taking a pauper's oath to get a little help for college expenses.

Third, I am alarmed with the HEW attitude of an expanded grant program for the middle-class family which smacks of a welfare-like program in which the Federal Government can take better care of it than it can take care of itself. This thinking when applied to the middle-income families which are the backbone of this Nation and carry the heaviest tax burden indeed has far-reaching implications.

Since Mr. Carter admits middle-income families need help in providing their children with higher education, why doesn't the President allow the family to keep more of their own earnings? Very basically, this is what a college tuition tax credit would do: reduce the family's average tax burden and free more funds for higher education expenses.

It is ironic that a President who campaigned against the ever-increasing problems of Big Government would want taxpayers to fill out more government forms, reveal their personal finances and assets to a Federal bureaucrat, and prove they deserve a government educational assistance grant which they finance through their own tax money.

Unfortunately, I must caution the committee that the Administration alternative package may be a potential booby trap.

The Carter-Califano proposal will add $900 million to the BEOG program in order to provide $250 grant to families with adjusted gross annual incomes between $12,000-$25,000, providing they survive the maze of government form filling, filing, and processing. A total of $70 million will be added to the Guaranteed Student Loan Program—a program noted for its large number of defaults, almost $1 out of every $8. A total of $150 million will also be plugged into the present Work/Study program. Federal administrative costs on this program alone for fiscal year 1977 totaled $19 million. Initial estimates of the increased Federal administrative costs, under the Administration proposal for Work/Study run into $6 million. Estimates are not included for the increased administrative costs on the educational institution level.

Some individuals estimate that of every $1 of Federal education aid money that is budgeted, only 50 cents worth of it reaches the needy student.

Because of the concern over the state of the Federal financial assistance programs, then Secretary of Health, Education, and Welfare Mathews ordered an independent study of student aid programs by the Student Finanacal Assistance Study Group with special concern devoted to management issues and fraud and abuse within the program. The findings of the study are available in a 263-page HEW publication. "Report to the Secretary—Recommendations for Improved Management of the Federal Student Aid Programs," dated June, 1977.

The study concludes on page 175:

"Student financial aid has grown from relative insignificance to one of the dominant forces affecting postsecondary education today. For example in the space of only four years, the Basic Educational Opportunity Grant Scholarship and grant programs, virtually non-existent 20 years ago, awarded almost $200 million annually by 1970 and grew to $645 million by 1975-76.

"In addition to these visible costs, a massive bureaucracy is being created within the Federal and State governments, educational institutions, and lending institutions to administer the programs. The programs grow ever more complex in sincere attempts to treat all students and institutions fairly, while curbing abuse. The Group believes it is time to reexamine the extent to which, and how, financial aid should be provided and to define the respective responsibilities of the Federal Government, State governments, institutions and students and their parents for sharing the costs of education and training."

It is interesting to note, HEW is currently trying to collect on as many as 350,000 government guaranteed student loans from people who have now graduated from school and defaulted on their payments. Federal defaults now total $430 million—which the taxpayers have to cough up. Nearly 6,800 of those who have defaulted on their loans are currently working for the Federal Government—316 in HEW alone.

For a President who has pledged to reduce unnecessary government regulation and involvement, the idea of funneling additional student aid through the Federal Government, further enlarging the administrative overhead, is both abhorrent and inconsistent with his avowed policies.

The tax credit approach is a much more direct and efficient way to aid both the middle Americans and the educational institutions. Its virtues are its simplicity and certainty.

It does not, as some detractors claim, aid primarily the rich.

Treasury Department's own figures estimate that 76 percent of the benefits would go to families earning less than $30,000. The American Council on Education has estimated that nearly 70 percent of the benefits would go to those families earning less than $25,000 annually.

It is overwhelmingly apparent that we need a program of assistance that complements and not complicates the existing student aid programs. And one that will be the best buy for the money.

As Senator Roth pointed out in his testimony before the House Ways and Means Committee on Monday of this week, the Administration opposes the college tuition tax credit on a cost basis. Yet according to the Joint Committee on Taxation, a $250 tax credit would cost $1.2 billion and would aid an estimated 6.2 million students and families—a greater number than the Administration's proposal will reach and at a lower cost.

I am in full support of continuing and improving Federal education assistance. I heartily commend the President for his concern with the plight of the middle-income American; however, I feel strongly that tuition tax credits would provide the most simple, direct and fair means of providing long overdue relief. Tuition tax credits are open to all—rich and the poor—and its implicit purpose is the assistance and promotion of education, not the redistribution of income. Other programs such as mortgage interest deductions, charitable deductions, insulation and child care deductions are part of our tax laws, because they encourage desirable ends. Education is similarly a desired end.

Why not give tax credits a try—limited aid for families during the period of time when they are most financially hard-pressed?

STATEMENT OF HON. LAWRENCE COUGHLIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Coughlin. Thank you very much, Mr. Chairman. I do have a prepared statement that I would ask be submitted for the record, and I might summarize very briefly.

With me is Judy Freelin of my staff, and I appreciate this opportunity to address the committee.

Let me say from the beginning that I applaud President Carter's recognition, albeit new found, of the desperate position of the middle-income Americans struggling to send their children to colleges and universities. I fully commend the purposes of President Carter's proposed program to provide financial assistance for the expenses of higher education.

As sponsor of the House version of the Roth-Coughlin tax credit measure, as well as other tax credit legislation for more than 8 years, I can only say that we, and the public, have finally gotten the attention of the administration and the Congress to the need for education assistance for middle-income families.

However, I hope that this committee and the American public—especially the American educators—will take a very careful look at the merits of the legislative vehicle which Secretary of Health, Education, and Welfare, Joseph Califano, has stitched together in an obvious, hurried attempt to block congressional support of education tax credits. The Carter-Califano proposal deserves intensive scrutiny.

After a year of listening to administration arguments disclaiming the need for higher education relief for the middle-income American family, I am gratified that the administration belatedly has admitted there is a problem. I must also admit that I am somewhat baffled with the administration's proposal.

After a year of claiming that a $250 tax credit is not needed, has little impact for the family and is too expensive, the administration now touts a $250 grant program for middle-income students. Administration officials, after castigating the Roth-Coughlin tuition tax credit proposal as far too expensive at $1.2 billion, have now heralded an administration package with the price tag of $1.4 billion.

It is also ironic that hearings were called on this proposal 1 day after the President's announcement of this program when every effort to schedule hearings on education tuition tax relief has been rebuffed by the House Ways and Means Committee in the past five Congresses.

The real question should not be a jurisdictional question between two committees. I hope the committee will address the real question: should we have a $250 grant or a $250 tax credit?

I think that there are a number of problems with the grant program the administration has proposed.

First, I believe simply pumping more Federal money into the present problem-ridden and patchwork Federal education assistance programs would not be the most effective use of the taxpayers dollars. A major share of the funds would go into increasing administrative and bureaucratic overhead, further inflating the expensive and duplicative bureaucratic processes, and resulting in a net loss of direct aid to the needy student.

This administrative cost would not be limited to the Federal Government alone, but would be magnified and expanded in the State governments, as well as in the educational institutions themselves.

A clear example of this is found with Michigan State University. According to a recent report, the university has had to hire 50 extra people just to keep up with the paperwork involved in loans to students attending the school.

Second, the administration program requires an expansion of Government redtape and paperwork by requiring families to fill out yet another confusing and disconcerting financial disclosure form within the Basic Educational Opportunity Grant (BEOG) program. This proposal still grants the Federal bureaucrats in HEW the ultimate authority to decide who will get educational aid and under what conditions.

You are aware of the application form, the application for the grants we are talking about today. If it is anything like this, it is indeed a demeaning kind of form. It requires the completion of both applicants' and parents' financial statements and it seems to me unlikely that many middle-income Americans will complete such a statement to get a $250 grant.

That 11-page form is an onerous and discouraging prospect. I, for one, am leary of forcing the hard-working middle-income Americans to fill out still other forms to get Government assistance.

Third, I am alarmed with the HEW attitude of an expanded grant program for the middle-class family which smacks of a welfare-like program in which the Federal Government can take better care of the family than it can take care of itself. This thinking when applied to the middle-income families which are the backbone of this Nation and carry the heaviest tax burden indeed has far-reaching implications.

I think the educational tax credit provides a credit because the family deserves it, to assist them in obtaining the higher education in that particular time when the family is under the most financial stress.

The Carter-Califano proposal will add $900 million to the BEOG program in order to provide a $250 grant to families with adjusted gross annual incomes between $12,000 to $25,000 providing they survive the maze of Government form filling, filing, and processing.

A total of $70 million will be added to the Guaranteed Student Loan Program—a program noted for its large number of defaults, almost $1 out of every $8. A total of $150 million will also be plugged into the present Work/Study Program. Federal administrative costs on this program alone totaled $19 million for fiscal year 1977.

Initial estimates of the increased Federal administrative costs, under the administration proposal for Work/ Study run into $6 million. Estimates are not included for the increased administrative costs on the educational institution level.

I am sure the committee is aware of a study commissioned by Secretary of Health, Education, and Welfare matters. This 263-page publication, "Report to the Secretary: Recommendations for Improved Management of the Federal Student Aid Programs," dated June 1977, concluded that a massive bureaucracy had been created within Federal, State, and local governments as a result of these programs. It concluded that it was time to re-examine the extent and how aid should be provided.

I hope in its considerations the subcommittee, as I said, will not just look at the jurisdictional question, but will look at the difference between grants and tax credits on the merits as to which is the best way of providing aid for the desperate middle-income families to whom this whole program is targeted.

Again, I commend the Administration for its approach to the problem and its willingness to do something about the desperate plight of middle-income families. I hope the committee will consider the fact that we do not want to put middle-income families on welfare.

Tax credits will not do that. It will give those families a choice and give them the benefit to which they are entitled as a matter of right, not as a matter of Government largesse.

Mr. Chairman, thank you very much. I appreciate the chance to summarize my statement.

Mr. FORD. Thank you.

Mr. Cornell?

Mr. CORNELL. One of the contentions of the administration, of course, is that any type of program like this should be based on need, and they maintain the giving of tuition tax relief would benefit the higher income groups more than those who really need it.

How would you respond to that?

Mr. COUGHLIN. First, I would say that under the Roth-Coughlin $250 tax credit and that over 75 percent of that aid would go to families with incomes of under $30,000.

Second, I would say that it is perfectly possible to put an upper income limit on the tax credit. In fact, legislation I initially proposed in the tax credit field was the graduated type of program.

Mr. FORD. If the gentleman would yield, the Congressional Budget Office told us that a $250 tax credit would put 30-some percent of the money that would be spent, if you spend $1.7 billion, in the income group between $10,000 and $25,000.

You cited a study that said 75 percent of the money would go to people under $30,000?

Mr. COUGHLIN. Let me get the figures on that. [Pause.]

The figures I was citing come from the American Council on Education. This was a Department of the Treasury study by the American Council of Education, if I recall properly.

Mr. FORD. It would be helpful if you could give it to us because it directly contradicts the study just released in January by the Congressional Budget Office, which is, in fact—I do not know if you have seen it—it is a study that was commissioned last spring, in spite of your observation that the administration, and presumably this committee in cahoots with them, just discovered the problem of the middle-class in the last few weeks. Last spring we asked the Congressional Budget Office to examine four different alternative methods of providing higher educational assistance to middle-income families and designated the area from $10,000 to $25,000 as middle-income on the assumption that the Bureau of Labor Statistics and the Census were reasonably accurate.

As you probably know, as early as 3 weeks ago, figures were released that only 20 percent have a combined family income in excess of $25,000. That comes to a shock to people, I am sure, who see the kinds of salaries we see around Washington, but, nevertheless, that is the latest figure on what family income is.

Mr. COUGHLIN. The figures I have, the Treasury Department's own estimates indicate that 76 percent of the benefits would go to families earning less than $30,000 and the American Council on Education has estimated that 70 percent of the benefits would go to those families earning less than $25,000 annually.

As I also pointed out, it is perfectly possible under a tax credit proposal to put a cap on the income level at which you provide the benefit.

Mr. FORD. There has been legislation on that proposed by Mr. Ribicoff.

Mr. COUGHLIN. And myself.

Mr. FORD. In the past the cap was not considered in the five alternatives, the five different methods that the Office of Budget Analysis in the Congressional Budget Office did. It indicated that the nonrefundable $250 tax credit, which would cost $1.7 billion, would put 49 percent of its money in the group up to $25,000. And, to increase the basic grants by only $800 million, you would put 72 percent of the money in that group. Expansion of the guaranteed student loan program, they indicate, would have an uncertain result. And we also have some uncertainty in dealing with the legislation. Since this group never had access to guaranteed student loans before, we do not know how much use there will be.

There are varying estimates. The American Bankers Association, which I understand will be testifying in favor of this bill, indicate that they think that there will be a substantial increase in the previous use of guaranteed student loans because of the income levels and the fact that this income level group constitutes a substantial number of families that are already the customers of banks and have some acquaintance with going to a bank and asking for a loan. At least, they do not panic when they see the assistant manager.

Mr. COUGHLIN. The objection I have to that kind of an approach is that it seems to me that some educational aid at that time when a family is under the most stress should really be a matter of right. We provide tax credits for insulation, we provide tax credits for child care, we provide tax treatment of charitable deductions, tax treatment of mortgage interests, and some aid at that particular time in a family's life when they are trying to educate their children should be a matter of right, not a matter of having to go and apply for a loan, not a matter of filling out forms for an educational grant, not a matter of having to disclose all of their personal finances and have bureaucrats dictate whether they will get educational aid or will not.

It should be a matter of right, just as those other things are.

Mr. FORD. Of course, you trouble some of us with this approach. You keep talking about aid to the family. The tax credit for insulation is perhaps a good example.

There is a tax credit someplace in the wind in the energy bill for storm windows. I bought new storm windows this fall and I suppose I should wait for delivery until I find out what the energy bill is going to do.

The fact is, like other people, that tax credit did not have very much influence on the purchase. But if you look at your 1040—have you seen your tax return yet this year—you will see that there are two lines reserved, sort of "you will hear from us later," for the tax credit, because the Internal Revenue does not know the effective date of that tax credit.

I have heard the suggestion that the tax credit route is an easy way, administratively, to deal with these things. What is the requirement for the family to get a tax credit under the legislation that you suggest as an alternative to this legislation?

Mr. COUGHLIN. Simply taking the credit on their income tax form.

Mr. FORD. Who?

Mr. COUGHLIN. The family who has the educational expense.

Mr. FORD. Who gets the tax credit?

Mr. COUGHLIN. There is a credit for each child that is being educated, being sent through higher education.

Mr. FORD. What if the child is an emancipated child and living on his own?

Mr. COUGHLIN. If they have an income, they get a credit. If they do not have an income, they get a tax refund under the Roth-Coughlin proposal.

Mr. FORD. Full-time students?

Mr. COUGHLIN. Yes.

Mr. FORD. How much of a tax credit does a part-time student get?

Mr. COUGHLIN. Under that proposal, there is not a tax credit for part-time students. It is to encourage full-time students going through full-time education. Those are when they have the highest expenses.

I might say that the chairman speaks of the insulation question, that the proposed tax credit did not encourage him to wait to get his storm windows. We are talking about a $250 credit and a $250 grant. I guess I would say that the $250 credit would be much more likely to be helpful than a grant where you have to go affirmatively and fill out reams of forms.

Mr. FORD. The average tuition, annual tuition, for community colleges across this country is $500 a year. What good is half of $500 going to be for those families? That is where the middle-class crunch is coming. Only 48 percent of the people on college campuses today are under the age of 22. You keep talking about the family as though there are a whole lot of rich daddies or middle-class daddies out there that, in fact, are paying the tuition for their children. It is just not so. That is not the way people are going to college today.

We have more people working their way through college on a part- or full-time basis today than at perhaps at any time, in real numbers, at any time in the history of the country. In percentage, it is perhaps not the greatest since the depression, but, in any event, in the case of most of the students we profile, you find that, if the families can give substantial support at this income level that we are talking about, it consists of housing, clothing, transportation, and food.

The kid has a part-time job, or the person has a part-time job, and they pick up the tuition. The tuition tax credit is aimed specifically at tuition. I can understand why it has to aim at tuition. It has to aim at tuition because the institutional support that you hope to get from that is not going to be there unless a connection between tuition or fees collected by the institution, is involved.

Everybody knows what is at the base of the attraction of tuition tax credits. It looks like an easy way around the first amendment for those people who feel frustration over what they feel to be less than a fair share of support for private schools, particularly in church-related schools.

You do not see the private schools or church-related running toward the same approach, because they are a little bit hesitant about trying to make that argument.

Mr. CORNELL. If the gentleman would yield back for a moment?

Mr. FORD. Certainly. I thought you and I disagreed?

Mr. CORNELL. I thought the name of this legislation was wisely chosen. It is really not applicable. Middle-Income Student Assistance Act. Who fall in the middle-income category—the students or the families?

Mr. FORD. Our legislation, if you take time to look at it, considers everyone who might be attending college to be eligible for some sort of Federal assistance from this point on, if they are not in the top, probably in the top 10 percent of personal income, in the top 20 percent of family income in the country.

Mr. CORNELL, In your remarks to Mr. Coughlin here, you are talking about all of the students. He is referring to the family.

Mr. FORD. He does not do anything for students unless they are in fact full-time students. What is the figure now?

Mr. COUGHLIN. On the theory that the full-time student is the one, and the family with the full-time student are the ones, who are bearing the greatest financial difficulty.

Mr. FORD. What do you do, for example, with your tax credit proposal for a woman who is now head of a household with three children, who has reached her late twenties, has a partially completed college education, and has an opportunity to take some career-oriented college program on a part-time basis? Can she get any aid or assistance under this program to go to school?

Mr. COUGHLIN. The program, as adopted by the Senate in the last Congress, was designed and geared to the full-time student. Her expenses, of course, as a part-time student, would be considerably less than those taking education on a full-time basis.

Mr. FORD. Part time might mean that you are paying $750 a year instead of $1,000 and that is generally the way it is. It is not more efficient financially to go to school part time. It is the most expensive way, over the long haul, to pay for education because usually there is a kind of discount basis in taking the full package. Also you have the time you have to continue support activities for education. It takes more money to go to school 8 years full or part time than it takes to go to school for 4 years. You certainly have friends who finally made it through law school at 30 because they had family obligations and so on. If they start totaling up what it cost them for that education against those of us who went on schedule, it is an expensive way.

Mr. **Coughlin**. I went to law school at night myself because I could not afford to do it any other way.

Mr. **Cornell**. Under the program that you suggest, are you eliminating all other types of student aid?

Mr. **Coughlin**. No. They would be—for the needy student, they would still be there.

Mr. **Cornell**. That young woman in the hypothetical case could get assistance under the program?

Mr. **Coughlin**. Yes.

Mr. **Cornell**. If I may ask a leading question, the administration argues, of course, that we ought to base the program on need. Do you not think that there is something inconsistent in that statement, and in their oppositions to the tax credit proposal when they provide this $250 direct grant to families with incomes of $16,000 and $25,000. That is a wide range and it is inconsistent with the idea that the amount ought to be based on need.

Mr. **Coughlin**. I think that those families also are in need when they are trying to finance the education of children, because I think educational costs have increased so much that they are still in what I would consider a need category in a particular period in their lives. If they are talking about the neediest of the needy, obviously it is not directed toward these and there are other programs to handle those, as you so aptly pointed out, that would not be discontinued by the tax credit approach.

Mr. **Cornell**. The other day, when we had several college presidents testifying, I did not anticipate that they were going to oppose $1.4 billion that was going to be available to college students. But one of them did point out the inconsistency of the administration's saying that we ought to base it on need and then come along with this broad range of $16,000 or $25,000. They all get the same thing—a $250 direct grant.

Mr. **Coughlin**. That is another reason why I don't feel that the tax credit approach should be criticized on the basis of need.

Mr. **Ford**. Does the gentleman from Wisconsin have any doubt in his mind that the two to five or three, whatever, billion dollars it takes to patch together a tax credit program that makes everybody happy is going to come out of the column titled education? Do you think they are going to put it under Defense Department or somewhere else? Where do you think the money that is going to pay for the program is going to come from, except from the programs you talked about. The President the other day indicated that one of the principal reasons they decided to come down against tax credits for higher education is that inevitably, however you broaden tax credits—for example, if you try to do something about the inequity of dealing with the part-time student, we simply add more cost to the program—it will be at the expense of the existing program for poor people.

For that reason, they felt constrained to oppose that approach. No matter how you do it—I think I am quoting Father Healy correctly when he said that they had come to the unanimous conclusion that tax credits could take money from the poorest people and give it to the richest people.

Mr. CORNELL. If he is talking tax deductions, he may be right, but not tax credit.

Mr. QUIE. If you will yield?

Mr. FORD. Where do you think the money is going to come from?

Mr. QUIE. The poorest people do not pay tax. When you look at the energy tax, the tax credit is always more of a benefit to the poorer people. A tax deduction is more of an advantage to a richer person.

Mr. FORD. Not if the tax credit is paid for by money that had been used by outright grants for poor people.

Mr. QUIE. I do not buy that either. We are going to enhance the programs.

I think there are more people who will agree with me who think that we ought to increase the grant program, the work/study and provide the tax credit. I think people who are middle income and upper income would be more willing to see the grants go to the poor and the lower income if they do get some benefit from it themselves.

I used to fight that idea, and you used to work for that idea. In fact, just a few Congresses ago, to help the middle income, I could not understand what happened to you folks over on the Democratic side when we were trying to help the middle income. I thought it was just us Republicans who were supposed to be helping them.

And we switched and went to the poor. I came to the conclusion we ought to help the poor and the middle income, both.

Mr. FORD. I hope you take note of what Mr. Quie just said, because in your statement you said that no one has paid any attention until the recent furor over tax credits.

Some of us have been battered and bloodied in trying to expand programs for the middle income.

But for the focus of the tax credit discussion has brought on the middle income plight, we would not be where we are. We are very grateful for that. None of us suggest that tax credits, in the absence of some other approach, would not be an effective way to get some money to middle-income people.

What we are discussing, we think, when we are comparing tax credits with the approach that is before this committee, is the question of whether one method over the long haul is a more effective way to do it than the other method. We do not contend that tax credits will not do anything for the middle class.

The question is, which is the most effective way, given a limited amount of dollars? Mr. Quie has consistently, in my years on the committee, voted for higher appropriations than Presidents have been willing to ask for and higher appropriations for years than the Appropriations Committee was willing to suggest. And Al will remember how many times we stood side by side fighting for money and we have never had any of the existing programs fully funded.

Every year, it is a fight to see how much we pro-rate, take away from people. After this committee determines what is needed, we have never been able to get enough money to fund the programs already on the books.

Mr. COUGHLIN. That is an argument for tax credits, because you do not have to go through the whole appropriations process and the uncertainty of that each year. It is built into the law, it is automatic. You do not have that problem.

Mr. Ford. It is an automatic expenditure, sort of like the welfare costs that are fixed over there at HEW. When you get high unemployment and these fixed costs, these automatic escalators go up. It takes money away that would be available for targeted programs.

When we get the budget from the President, there is going to be a column in that budget that says education funds. It is going to be broken into higher education, and we will have already spent over $5 billion out of the President's budget for the year in education tax credits. He is going to take it out of what he is willing to support and the Office of Management and Budget is willing to support for education for the year.

Mr. Coughlin. The same argument can be made on the $250 grant. It is the same argument.

Mr. Ford. Of course.

Mr. Quie. If you would yield, social security benefits and the GI bill as well. It was not really until we got into student aid programs in the late 1960's and 1970's that we really were aware of the extent to which social security benefits actually provides aid for students in postsecondary education.

I think you are right that they will take this just the way they do the social security benefits and the GI bill, and in that one special analysis of what goes into education, put it over there in that analysis.

Mr. Ford. You raise another interesting proposition when you mention social security education benefits and veterans benefits.

There is probably no particular category of higher education benefits that is as controversial in the education community today as veterans benefits. The problem arises out of the fact that an agency that is not education oriented has to define such things as a full-time student.

The suggestion is that it is easier to administer tax credits because you do not have to go through the maze of HEW. The problem we find is that agencies who are not in the education business have some difficulty keeping current with what a full-time student really is.

As a matter of fact, we have had some lawsuits this year brought against the Government because of restrictive regulations. Presumably the IRS will write the regulations to go along with the instructions on the 1040 on what a full-time student is to entitle you to the tax credit.

One of the concerns we have is putting the IRS in the business of deciding who are full-time students. For that matter, to define a student, you have to define an educational institution, and I would assume that you would agree with me that we would expect them to do that. We would not want somebody just to create a school out here, call it a school, and be able to charge tuition and have people take the tax credit if they were studying the flight of the geese this year, or whatever might come to their fancy.

What happens is that what looks like a simple proposition gets complicated when you try to define terms like student, school and full time.

Mr. Coughlin. Specifically on schools now you can make a charitable contribution to a school. That is a defined thing. The IRS already does that.

Mr. **Ford.** IRS defines schools but the IRS definition of schools poses no impediment to the academies, for example, which we try very carefully to avoid providing support for.

Our view of education is a little different than IRS's. We have never accepted, on this committee, the IRS definition of a private school, have we?

Mr. **Quie.** No.

Mr. **Ford.** We were always very reluctant to take their definition.

Mr. **Quie.** It is not only charitable contributions, but those people who are my age, who have students in college find that students do not always go to college continuously. They have to get an IRS regulation whether you can take your son and daughter as an exemption or not for the time they have gone to college. They have already worked with a substantial portion of that.

Mr. **Ford.** But it will require substantial regulatory supervision by IRS to determine that the tax deduction for that particular year is a legitimate one.

The beauty of it is, even though you can get your withholding reduced because you have somebody in college and you have to justify that at the end, by April 15, it is after the fact.

The problem that we have had with loans and with grants is that they come before the fact. Then you have to try to get that money back from them.

What we find in IRS is that the parents of these tend to be honest. By and large, parents are honest. It is an amazing thing that happens in this country. People are filling out their own tax returns and charging themselves and giving it to the Government. The IRS does a spot check, but when you look at the millions of people who pay taxes, their integrity is amazing. The same is going to be true: A much greater integrity in the tax credit than in the grant program.

Mr. **Coughlin.** I think so. The IRS has been devilishly clever at having an efficient and honest system. People are less likely to cheat on an income tax return.

Mr. **Quie.** If you take a percentage of people's income to pay back their loan with, those people are much more fearful of IRS, of cheating, than the local college.

Mr. **Ford.** One of the concerns that the education community raised to us, and the Secretary testified before the committee the other day, is cash flow problems.

With all the strains on the middle income, when you try to package up money to make the decision in the summer of going to school in the fall, you have to look at what the resources are going to be. Even though a tax credit of $250 is going to be due for the money you put out this September, it is not going to be received probably until next spring or summer sometime, but you make up the gap in the meantime.

The one advantage—although it has to be done in front, as Mr. Quie indicates—of having a grant is that the grant is there. It is literally in the bank for the school at the time the school starts. While it does take time to process paper, the student starts school at the beginning of the year because it is going to be forthcoming.

Perhaps the schools could work out some sort of a loan arrangement to consider the $250 tax credit at a later date as a receivable, but we get them back into making the kind of loan that they do not now make.

Mr. Coughlin. Mr. Chairman, we just had the president of the student body of the University of Michigan here the other day and one of his concerns, and the students out there, that they applied for Federal assistance last year for this year's college and they still have not heard from the Government. At least the tax credit is certain.

If you have to fill out forms and have that processed by HEW and shuffle all of that paper, there is much less certainty in that, than knowing that you are going to get your tax credit.

Mr. Quie. If you would yield, I mentioned a little bit earlier, you can do that on your withholding. You can have a lesser withholding. I had a similar experience this year, because the pay increase came. I decided I would give it to charity rather than give it back to the Federal Government. There was no sense in my paying taxes on all of that and not having that money, so I changed my withholding so I would have a substantially reduced amount.

That $9,000 worth of money went to charitable contributions. The same thing can be done with the tax credit. However, you change the withholding so that you have that money. You then have the accounting by April 15 the next year when you had better make it accurate, or they are going to get back after you again.

Mr. Ford. If I may be facetious for a moment, Al, that sounds much simpler than the way we do it now.

Mr. Quie. It sure does.

Mr. Ford. This could be called the H & R Block approach.

Mr. Cornell?

Mr. Cornell. I would like to make one last statement. I think Larry and others who have pushed for this tuition tax relief have really made a contribution. It strikes me—and you alluded to that in your statement—that when the administration came out with the budget not long ago they talked about a $250 million increase for these programs; then all of a sudden they saw the light of day and decided they needed $1.2 billion more. I doubt, if it had not been for the drive for tuition tax relief, that the administration would not have come along with additional funding.

Thank you.

Mr. Coughlin. We are delighted that the administration has seen the need.

Mr. Ford. All of us would agree with that. I thought I said the same thing a few moments ago. We are not at the point of wanting to fight the battle of tax credits. We will let the Ways and Means Committee worry about that by itself.

We are at the point of measuring this approach against alternatives which not only include the tax credit but the tax deferral program that is being advocated by some people before Ways and Means. There are a number of variations on the same theme.

I appreciate very much the opportunity we had to get into this record the kinds of comparisons that you have made.

Mr. Buchanan?

Mr. Buchanan. Thank you, Mr. Chairman. I, too, commend the gentleman for his leadership over a period of time in this area. As someone who has cosponsored tax credit legislation, I am certainly not hostile to that approach.

Personally, I have come to somewhat favor the approach of the administration bill. However, I personally feel that we must find a way to provide this relief to middle-income people without penalizing, or taking away from, low-income families.

I have more of a statement than a question. My greatest concern is that whatever approach we take, a tax credit or this grant and loan program, it will prove cotton candy, especially with the grant and loan program, because we do not get the sufficient appropriations.

I am also concerned, similarly, that we will not get close enough to full funding for the program to become other than something that takes away from low-income families by expanding the number of people eligible from the same, or just a slightly larger, pot.

I therefore want to urge the gentleman and his Committee on Appropriations to take a really hard look at our authorizations for education, because I am very much afraid that we could provide this authorization for relief of middle-income families and then the Budget and Appropriations Committees will not concur with us.

After that happens, and we make more people eligible for the same amount of money, we have, in effect, transferred from low income to middle income some of the assistance.

I hope that the gentleman will look with great sympathy and mercy on our authorizations.

Mr. Coughlin. Thank you very much.

As I said, one of the beauties of the tax credit approach is that it is not subject to the vagaries of the annual appropriations process and the uncertainty that comes from that.

Mr. Buchanan. Thank you, Mr. Chairman.

Mr. Ford. Mr. Quie?

Mr. Quie. Thank you.

I appreciate your testimony. As I indicated when I asked the gentleman to yield, I strongly support the tax credit, but I would like to see us improve and expand the grant program that comes out of this committee.

While I had some reluctance when we extended it to go all the way to $1,800, since we did change the law, I think we ought to be funding the grant programs at $1,800. That is what the administration does and I strongly favor that.

Part of the administration bill that I have reservations about is that $250 for everyone from $15,000 to $25,000, which is adjusted gross. That means about a $32,000 income.

Instead of using the current 20–30 percent "tax rate" that is implied in the administration bill as well as in present law, I would like to propose a 14-percent "tax" rate. Above the family offset allowance and graduate the reduction so that at a little over $23,000 a family could still get a grant. Under this BEOG it would operate as the program did before, but those between $23,000 and $25,000 would not be receiving any amount in a typical family.

That is really the way I would like to see the administration bill changed.

I still believe that the return we get in this country for people going through postsecondary education is enormous. We get the revenue back later on.

I am really disturbed that the percentage of students from families above $17,000 has decreased as much as it has from 1967 to the present time. Some say that the draft had something to do with it and it may have had something to do with it. I believe a great amount, because it is a variation between income levels.

That is why I believe that we ought to have the tax credit. Then there is assurance, you do not have to worry about what one's income would be, or what the appropriations would be. There would be assurance that you would receive the tax credit when your son and daughter goes to college.

With that assurance, I think we would motivate parents with that subconscious thought when talking to their son or their daughter during those years in developing their decision whether to go on to postsecondary education or not. That is my strongest support for tax credit, that kind of motivation.

The parents have a tremendous impact on the students.

Mr. COUGHLIN. The gentleman's point is extremely well taken.

Mr. QUIE. Thank you.

Mr. FORD. You do not touch on this in your statement, but what is your reaction to the portion of the President's proposal that suggested that we take the guaranteed student loan with subsidized interest—in fact, totally subsidized interest to the due date of the loan, plus a subsidy to the lender and the service fees to the lender that would encourage them to make the loans—up to an adjusted gross of $40,000, depending on family size, would be as much as a $60,000 income level.

Do you think that is a desirable approach?

Mr. COUGHLIN. I think, as I mentioned earlier, that there is some aid that should be a matter of right, not as a matter of having to go to a bank to apply for a loan, not a matter of filling out forms for grants, not a matter of having to file personal financial disclosures on the student grant. It should be a matter of right, and I think that is the thrust of the tax-credit approach as opposed to having more loan approaches where you have to go to the bank, where you have to file all sorts of papers, where you have to put the middle-income family on welfare, which I do not think you should be doing.

Mr. FORD. Let us assume that a middle-income family with a budget that says you squeeze out $500 a year to pay tuition which would make them eligible for the full tax credit is pretty much straining at the limit of what they are going to do. That is not going to put the student in school unless they are going to go to a school that does, in fact, charge only $500. We are looking down the barrel of tuition costs as high as $7,000 a year.

One of the things that we have seen happen, particularly in the private school sector, is that they have been very hard hit by the veterans' program, for example. Practically all of these students, because of the poor way in which we have written veterans legislation in recent years, are in the lowest cost schools. Not only does that affect the type of school they are attending, but even the part of the country where they go to school. They are seeking out, intentionally, the cheapest education package they can find because it is the only way that they can survive in the system that we set up for them.

When I went on the GI bill, the question of where I selected a school was not really important to anybody except me because the VA picked up the tuition costs.

We do not do that for them anymore, and it has not had a very good effect in terms of really preserving a good mix of middle-class students being in all types of schools. We have seen the low-income student using his GI bill going to very good schools, but going primarily on the basis of an economic consideration.

The loan does make it possible to get up to $2,500 on top of whatever resources you have per year. That does not become an obligation until after school, and it does not accrue any interest on the period of the loan until it is due for repayment. This is the same way that we have been doing it for low-income students.

This has a very strong appeal to people who see the difficulty of putting a $5,000 or $6,000 package together.

Mr. COUGHLIN. I think the Chairman's point is well taken. The more expensive schools you may need the tax credit and some other form of assistance. That is what you have other programs for, to help compensate for that question.

I think there is also—a school of thought that says if you have an assured tax credit you will upgrade the school by increasing competition for applicants, and also increasing the number of potential applicants who can now apply to a somewhat more expensive school.

There are a number of different theories on that question that you are raising, which I think is a good one.

Mr. FORD. We would certainly hope, as Mr. Quie indicated, he is willing to support both approaches and hopefully in the best of all possible worlds, we hope that you would decide on both approaches. I say that in full deference to the years of effort that you have put into a particular approach that you favor.

I would like, in closing, to draw attention to your statement on page 3 where you talk about the magnitude of cost, the amount of money for administrative costs that is magnified and expanded in State governments as well as the college institutions themselves. You use Michigan State, saying that:

> According to a recent report, the university has had to hire 50 extra people just to keep up with the paperwork involved in loans to students attending the school.

We asked the National Association of Student Financial Aid Administrators to break that out for us. They could not find the report that you are referring to, but I have a letter here from the executive secretary of that association, dated yesterday, stating that he talked to Mr. Henry Dykema, director of financial aid at Michigan State, who informed them that:

> In spite of the fact that they are handling 6,000 loan applications a year and have been experiencing an increase of approximately 200 applications per year, the last fiscal year they have only increased their loan collections staff by one person and likewise have only added two clerical people to their student aid office.
>
> Mr. Dykema also indicated to me that, in spite of continued increases in student aid in the State of Michigan, he was certain that the University of Michigan had no additional staff to handle the increased volume for this fiscal year and likewise the State agency which has just initiated a new program, also has not added staff.

Could you provide us with the report, with the source of that report?

Mr. Coughlin. We will supply that for the record.

Mr. Ford. Without objection, I would ask that the letter from the National Association of Student Financial Aid Administrators be inserted in the record following this colloquy and the statement by Representative Coughlin.

[The letter referred to above follows:]

National Association of
Student Financial Aid Administrators,
Washington, D.C., February 15, 1978.

Hon. William D. Ford,
Chairman, Subcommittee on Postsecondary Education, Committee on Education and Labor, House of Representatives, Washington, D.C.

Dear Mr. Chairman: Per your request to review the additional staffing that has occurred at Michigan State University required to administer the student loan programs, I have called Mr. Henry Dykema, Director of Financial Aid.

He has informed me that, in spite of the fact that they are currently handling more than 6,000 loan applications a year and have been experiencing an increase of approximately 200 applications per year, in the last fiscal year they have only increased their loan collections staff by one person, a clerical assistant, and likewise have only added two clerical people to their student aid office.

Mr. Dykema also indicated to me that, in spite of continued increases in student aid in the State of Michigan, he was certain that the University of Michigan had no additional staff to handle the increased volume for this fiscal year and likewise the State Agency which has just initiated a new program has also not added staff.

I would be happy to try to collect more specific data over a longer period of time if you feel it would be helpful to you and the Members of the Subcommittee.

Sincerely,

Dallas Martin, *Executive Secretary.*

Mr. Ford. Thank you very much for your help.

Mr. Coughlin. Thank you very much, Mr. Chairman.

Mr. Ford. We tried very hard to get you on last week, but we were really under the gun.

Mr. Coughlin. Thank you very much for your courtesy today.

Mr. Ford. Larry Zaglaniczny, Coalition of Independent College and University Students.

[The prepared statement of Lawrence S. Zaglaniczny follows:]

STATEMENT OF LAWRENCE S. ZAGLANICZNY, NATIONAL DIRECTOR, COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS

Mr. Chairman and Members of the Subcommittee, I am Lawrence S. Zaglaniczny, National Director of the Coalition of Independent College and University Students, also known as COPUS. I would like to thank you for this opportunity to comment on recently introduced legislation designed to aid students who come from middle-income families and wish to attend college. President Carter announced yesterday his plan for adding another 1.21 billion dollars to the FY 1979 Federal student aid budget.

Aid to middle-income students is one of the highest priorities our organization has set. The Coalition has long held the view that our independent institutions were in danger of becoming so expensive that only the disadvantaged, with student aid, and the rich could afford their costs.

Therefore, Mr. Chairman, I publicly applaud and give our student's approving thanks for this initiative that will aid additional millions of the nation's students. President Carter must be commended for his recognition of the problems students face in attempting to finance their postsecondary education. In fact, we believe that many individuals have not been able to attend college because of the high costs, even though they were members of the middle-class. It is certain that many individuals would have attended independent colleges or universities if they had been eligible for student aid. This legislation helps to alleviate that problem and will allow more students to select a college based more on educational rather than financial considerations.

However, while we give all due credit and praise to the President for his initiative, we do wish to warmingly thank, because we sincerely appreciate their efforts, all the Senators and Congressmen that have offered their own middle-income student assistance plans or helped the Administration form the current presidential proposals. Explicitly, Chairman Ford and Senator Claiborne Pell deserve our high praise. Also, we commend Senator Williams and Representatives Perkins, Brademas and Thompson. Mr. Chairman, while it is often thought that our representatives in Washington are in debt to the population they serve, and they are; yet, as students we are in your debt for this additional aid.

Unfortunately, I have not sufficiently studied the legislation nor have I been able to consult adequately with the Coalition's membership to specifically comment on all of the aspects of this middle-income assistance program. I respectfully ask the committee for an additional opportunity to more fully testify before you on some minor changes we might submit for your consideration.

On the other hand, I would like to suggest two additions to this program that will even more expand the aid opportunties for middle-income students, especially those who attend independent colleges and universities.

Mr. Chairman, two Federal assistance programs particularly assist middle-income students in the independent sector, the Supplemental Educational Opportunity Grant (SEOG) program and the State Student Incentive Grant (SSIG) program. Analysis indicates that these two programs reach a higher percentage of middle-income students in their current operations, than any other Federal student aid program, aside from the College Work/Study program. If these two programs were funded, as we recommend, it is our belief that these aid trends would continue and increase the number of students served and amount of aid received.

Consequently, Mr. Chairman, the Coalition of Independent College and University Students recommends that the bill be marked up to include an increase in the SEOG "threshold" to 500 million dollars and we ask that the SSIG program, which aids both states and students, be funded at 100 million dollars for FY 1979. These proposals will add only 253 million dollars to the President's program and will greatly enhance access to college for the middle-income, especially access to independent institutions. If the SEOG and SSIG programs were funded at the Coalition's levels, then the proposed package would more completely serve students from the middle-class.

The President's program, along with the changes COPUS recommends, would eliminate the need for an inequitable and wasteful tuition tax credit which will help destroy independent higher education. Any Member of Congress who wishes to help middle-income students and families should support this student assistance proposal. It will meet the goals that a tuition tax credit is supposed to accomplish and do so with a responsible, fiscally sound and reasonable program of aid which is so well exemplified in the President's proposal.

Again, Mr. Chairman, we recommend changes in the SEOG threshold, funding of the SSIG at a more advanced level and the defeat of tuition tax credits. This proposed legislation will aid the middle-income more than a tax credit and we urge its adoption with minor changes. Finally, we thank you for this opportunity to testify. And, we commend all involved for this initiative and the leadership and sensitivity shown in attempting to aid the nation's students.

STATEMENT OF LAWRENCE ZAGLANICZNY, NATIONAL DIRECTOR, COALITION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS

Mr. Zaglaniczny. Mr. Chairman, I am Lawrence Zaglaniczny, Coalition of Independent College and University Students. I am apologizing for not having a statement for you. I will have one very shortly. I had to testify yesterday in front of Ways and Means.

Mr. Ford. If I could ask you one question, when you referred to the independent college and university students, do you mean the status of the college or university?

Mr. Zaglaniczny. Right, although we do have some independent students.

Mr. Ford. Nonpublic colleges and universities, which is another way of putting it?

Mr. Zaglaniczny. Precisely.

I apologize again for not having a statement for you. I had to testify before the Ways and Means Committee yesterday and I could only type so many statements in a week. I will provide that to you Monday.

First of all, I want to thank you, Mr. Ford, and Mr. Thompson, Mr. Perkins, and Mr. Brademas for having gotten this Middle-Income Assistance Act off the ground. It is a long time in coming.

COPUS, since its formation, has consistently pushed for more aid for the middle income and up to this point, we have been unsuccessful. But I think that at this point in time, President Carter should be commended for this program because it will aid the middle-income students.

I want to thank staff members—they know who they are—because they have helped us in terms of consulting with us as the program has been developed. We do have a couple of suggestions for amendments.

The first would be that we do support, very strongly, funding for the supplemental educational opportunity grant program. We would recommend raising the threshold $100 million in 1979, $459 million in fiscal year 1980, and somewhere between $500 and $600 million in fiscal year 1981.

We would recommend that the cap be taken off the loan ceiling, the $41,000 cap be removed. We would call this Oliver Barrett IV amendment. Oliver Barrett was the character in "Love Story" whose father disinherited him. Even though he was rich, he had to beg for student financial aid. If we took the cap off, Oliver would be able to get a loan.

We would further recommend increased appropriations for the SSIG program. However, that is an appropriations matter; I do not think much can be done here by you.

I do want to mention that we have always wondered about what is the middle income, and I would bring your attention to an article that appeared in "Across the Board," published by the Conference Board, and the title, as you see from the Washington Star indicates, "Affluent Class Grows; 11 Million Earn $25,000 And Up."

The 80th percentile of income, according to this article, and in the Conference Board of Education, is $25,000, and I would quote from a UPI dispatch:

America's affluent class, which earns a minimum of $25,000 a year, accounts for more than 40 percent of the Nation's purchasing power, and now numbers 11.1 million families.

The Conference Board reported today this so-called income elite represents the top 25 percent of all U.S. families in earnings.

Nationally, there has to be aid to the middle income. The question really has to come down to which plan is the most appropriate means for delivering that aid?

President Carter has made it absolutely clear that we will have increased student aid or a tuition tax credit, and I have no doubt in my mind that if we have the tuition tax credit that the President will either, in the future years, not increase student aid appropriations or some other horrible thing.

I will recommend that the tuition tax credit be killed in this Congress. I know there is a great deal of support for the idea but, in my view, it is the band-aid approach to aiding the middle-income. However, to keep in the ball game, we have recommended our own solution.

I would like to stress a couple of things about tuition tax credits. Will they increase access to America's colleges and universities? No.

If you do not have the money to pay for college tuition you cannot get a tuition tax credit.

Student aid will give people money, up front, so that they can pay the bills, and I have to say I am really surprised by people saying that student assistance is welfare. I think that is an unfair characterization of programs that aid students and allow them to get an education, which is probably the most important thing that happens to a person in their life.

If we look at the tax credits, let's look at the facts. We can provide our statement from the Ways and Means Committee to you, but we have done some research. Our research shows that of the Nation's colleges and universities, this is a comprehensive study using Federal information, we have found that of institutions that charge under $500, 56 percent of the public school students go to those institutions, presently enrolled students of the Nation's population, 56 percent of them go to schools that charge less than $500 tuition.

That means under $500 tuition program, we are providing them with free tuition. I know very few Members of Congress who, either through the appropriations process, or through using tax breaks, are in favor of using U.S. Government funds in whatever form to pay for free tuition.

Now, if we consider this, let me say, on private schools, less than 1 percent of those would benefit from free tuition benefits as instituted by a tax credit. If we look at schools that enroll, whose tuition is $1,000 or less, we find that 4 percent, approximately, of the private schools charge less than $1,000 in tuition and required fees—4 percent of the enrolled students, while, on the other hand, 97 percent of the public school students go to schools that charge less than $1,000. How are private schools going to compete with schools by instituting a tax credit whose cost is free, while in one fell swoop you cut the tuition in half for almost all of the public school students, where you may give a $500 credit if you go to a school that charges $4,000, you may give them a 12.5-percent benefit. That is unfair.

I think that tuition tax credits, and the way the current bills have been introduced, are going to be the death of private colleges, perhaps. That is a little strong, but they certainly are not going to help.

So I would suggest, in conclusion, that we are convinced that the most effective solution to the question of financing of an individual's postsecondary education, especially for low- and middle-income students, through a reformed and fully funded system of student assistance. The President's proposal is in the right direction, will accomplish the goals of tuition tax credits with less cost and more bang for the buck.

Every Congressman who is interested in aiding middle-income students should support the President's plan. President Carter has made it clear that we can have increased student aid or a tuition tax credit, but not both, and I believe him, and I think that the needy students who have a tuition tax credit will be hurt.

As responsible and knowledgeable students who attend very costly institutions in the independent sector, we choose increased student aid and responsive student aid programs, not a harmful and simplistic band-aid program of tuition tax credits.

Again, Mr. Chairman, we thank you for this opportunity to testify. We are going to work for the passage of the Middle-Income Assistance Act. We will give it every effort and spend as much of our small amount of funds that we have and we want this bill passed and we want it passed now, because aid to the middle-income people, which this bill will accomplish, is long overdue.

Thank you.

Mr. FORD. Thank you very much for your statement and for your support, even more for the help that you have given us and the staff in developing that package that was crystallized in this particular legislation.

As we recognize with every piece of legislation, this bill, when it comes before this committee, will likely be changed in some ways. We certainly are going to take your recommendations with respect to change to heart.

I would like to observe that at the very first hearing on the bill, Senator Javits of New York stepped out front with your proposal of taking the cap off of the student loans. I think his observation, if I can paraphrase him, was the student loan cap that you put on is too high and you are going to catch 95 percent of the people in the country anyhow. Why not just take it off and let everybody have a shot at it?

The only response that anyone had to that was the political problem that emanates from suggesting that you have a universal program that goes to everyone, that has dimensions that people not acquainted with the realities of where middle income and higher income really are in the country which frightens them to the point where they might resist the bill.

I think, in preparing the legislation, the figure at $40,000, $45,000, was arbitrarily arrived at as something that may be salable to the Congress and to the American people. But certainly you are not alone in the suggestion that there need not be a cap.

Mr. ZAGLANICZNY. If I may be somewhat facetious, we think the rich have a right to default also. That problem has to be solved, and OE is taking some positive steps in that direction.

Mr. QUIE. One of the things that I would like to walk through with you intrigues me. I have not heard that presented before, that if you had the tax credit did you say that private colleges had to have something around $1,000 tuitions?

Mr. Zaglaniczny. I do not understand.

Mr. Quie. You said that would make it more difficult for private, independent colleges because they have a higher tuition?

Mr. Zaglaniczny. Ninety-six percent of private colleges have tuition over $1,000.

Mr. Quie. The public colleges?

Mr. Zaglaniczny. Ninety-seven percent are below $1,000. Even with the half cost, our point is the present tuition tax credit bill, the one here, will cut their cost in half. How can independent institutions compete?

Mr. Quie, It is better to pay 100 percent, up to $250? I do not understand how you are better off by paying 100 percent of up to $250 for the middle-income student.

Mr. Zaglaniczny. I would have to agree.

Mr. Quie. A person goes to a community college in California with a $50 tuition. You get $250. If you go to one with a $250 tuition, you still get $250.

It is true that if you go to one with $4,000, then you still get $250.

Why is that not even more of an inducement to go to the public, low-cost institutions than the tax credit?

Mr. Zaglaniczny. It is only affecting that range of $16,000 to $25,000. I guess it is 2 million students. I agree that the BOGS program and the President's proposal could be amended to be more sensitive to income and tuition than the current program is. That is an amendment for either next year or this year, depending upon funds.

Mr. Quie. You could do the same thing with tax credits, by cutting it off at certain income. For years I have introduced tax credit legislation that would give 100 percent credit up to a certain limit and smaller percentages for larger amounts. The credit would be reduced by 2 percent of the amount the taxpayer's adjusted gross income exceeded $15,000. You can do all kinds of things like that if you wish to reduce the benefit for higher income people.

What you are talking about is a principle. I do not see how the principle changes with that. It affects fewer people.

Mr. Zaglaniczny. If we take the principle in the President's statement, we are either going to have tuition tax credits or increased student aid.

If we have a tuition tax credit, we are not going to have increased student aid. I think that is going to impact on future appropriations.

Mr. Quie. He does not run the Congress yet.

Mr. Ford. Counsel got down to a comparison. If you have a family considering the potential of the student entering a private school with a $6,000 tuition or a public school of $400 tuition, in each case you give them a $250 tax credit. At the end of the year, for the student going to school in the one case it is only $150; the other case, $1,350.

If we were able to expand this program so everybody up to $25,000 would be a part of the targeted population with access to BEOG's, presumably you would reduce the $16,000 figure. What happens, from the private school point of view, is their potential to get more money for a substantial part of their potential school population by expanding BEOG's. That exceeds the likelihood of having to extend everybody tax credits.

If you had some kind of a sliding scale, such as you are suggesting, that may work. As far as I have been able to determine, that has sort of been left by the wayside by advocates. Senator Ribicoff had it in for years on the other side and we have had something like it on this side.

Mr. Quie. That concept has been dropped.

Mr. Ford. The Roth-Coughlin approach has had to drop that off because it does not have much constituency out there. You get back in the same box of people saying we are being discriminated against.

Mr. Quie. I recognize that. I am driving at the principle. The principle that you make with respect to tax credits is even worse in the case of the administration's $250 block grant from families with incomes of between $16,000 to $25,000. In that case, I do not see how you can be against tax credits and for this $250.

Mr. Zaglaniczny. I think that this program, the BOGS thing, is certainly in need of improvement on that precise point. I have every confidence that that will be changed, if not this year, then next year.

Mr. Quie. I have an amendment to change it.

Mr. Zaglaniczny. We will look at it. If your amendment looks good and it improves the program, it makes our case for the Middle-Income Assistance Act much stronger, rather than tax credits.

Mr. Quie. That is all.

Mr. Ford. Suppose, in the second year, we were able to extend the language in the present draft of this legislation. Our computer said it will take another $800 million to do it. It is similar to your suggestion of using 14 or 16 percent. We did it with 16 percent, and I think we have a run on that. I think that is the one that produces the $800 million needed to carry a continuous line all the way out to a $25,000 income.

The way the legislation is written, it leaves the door open—and we have already made the promise—that that would be where it would end up. We started with a $2 billion approach being the only practical way that you could effectively do what everybody says that they wanted to do for the middle class.

We do not know whether it would require the full $800 million. We do not know for sure what the impact of this program is going to be in changing the student population.

Either could cost a lot more. If, in fact, economics had been an inhibitor and we raised the student's expectations with this legislation, it may well be that we are looking forward to an increased student population that will run all of these figures up.

Mr. Zaglaniczny. With those changes, I think that would be an appropriate student aid package. I think it might give a reason for going out of existence. I doubt it, but perhaps.

Mr. Quie. I will try to add tax credits to that, also.

Mr. Zaglaniczny. I would just as soon that you did not do that, with all due respect. The current bills are going to hurt the private sector. It is either free tuition, or cutting the public's tuition in half. We are talking about proportionate benefits and we have come up with our own tuition tax credit proposal. If the Congress is going to pass this legislation, we certainly want to be in the ballgame and amend it most appropriately so that it would be equitable toward tuition levels and income.

In brief outline, our proposal will be—this is very clear from our student chapters—that this will be the last resort. If there is going to be a tuition tax credit, we prefer something along these lines. We prefer to increase student aid. We would say a tax credit of what would amount to for families of incomes of zero to $25,000 a year, you would get 25 percent of the tuition, paid tuition and required fees.

After $25,000 it would phase down by 1 percent for every $1,000 additional income until it hit $45,000 which is 5 percent; for $40,000 and over, it would be 5 percent of tuition fees. If you make $14,000 a year, you would be eligible for 25 percent.

If a child went through college that had a tuition of $4,000, you would get a $1,000 credit. If you went to a college that charged $500, you would get $125.

If you made $40,000, that would be 10 percent of required tuition and fees if the student went to an institution that charges $4,000, you would get $400, which is 10 percent. If he went to an institution that charged $500, you would get $50. That would be equitable and we think that the more income a family has, the greater responsibility it has to pay for the student's education, and the greater their ability.

This would be our proposal. This would be a last-ditch thing that we would support if the Congress felt that they had to go to tuition tax credits.

We recognize there is great support for it. It is just going to be a disaster, in our minds.

Mr. FORD. Mr. Cornell?

Mr. CORNELL. I noted you made reference before to the question of defaults on student loans. As you are probably aware, this has been a subject that has come up a number of times on the floor of the House.

Do you believe that there is a necessity of putting any provisions in this legislation to deal with the danger?

Mr. ZAGLANICZNY. I kind of view defaults as an economic problem. Students are either underemployed or unemployed.

Certainly in past years the Office of Education has not gone after defaulters. I know that if I do not get a telephone bill, I do not pay it.

I think that the Office of Education is taking appropriate steps to solve the default problem, and I think that if the economy turns around more and more, the default problem is going to go away. There have been some shady operators in the field that have ripped off students, and I think that the 1976 amendments have tightened that up.

So that I would expect that the default question, the default problem, is going to go down, the default rate is going to go down in future years.

Basically, that would be it.

Mr. CORNELL. The reason that I asked such a question is that there is a possibility that there might be a substantial amount of opposition due to the number of defaults. The revelations of the Office of Education have not helped in that respect.

One other observation. You refer to the tax credit approach as a Band-Aid. Why is that?

Mr. **Zaglaniczny**. It is not comprehensive. It is only $150 or $500. For a student who goes to a private institution which generally charges a much higher tuition, it is not going to be that relative benefit compared to increased student aid, which will, perhaps, in many cases deliver more than $250.

Mr. **Cornell**. Do not predicate that on the elimination of all the programs that we have. We are not talking about the elimination of those programs. I go along with Mr. Quie, that we should have a combination of these.

Incidentally, I agree with you about the eligibility level of loans. As a matter of fact, Mr. Miller and I were trying to develop some kind of legislation to have a universal eligibility, because I think there are a relatively small number of the high bracket who could take advantage of this.

Mr. **Zaglaniczny**. Yes.

Mr. **Cornell**. Thank you, Mr. Chairman.

Mr. **Ford**. Thank you.

I would like to observe that you must have an inside track with HEW because the HEW news bulletin, issued today, indicates that today Secretary Califano is announcing the second in a series of specific administrative actions that they are taking which runs quite a number of pages.

Perhaps I should put it in the record here. He issued this as of 11:30 this morning, indicating the further steps that they are taking to cope with the problem of student loan defaults.

[Statement by Secretary Califano appears in appendix.]

Mr. **Ford**. Buried in an HEW news bulletin of yesterday, a background paper on student assistance programs, they enumerate the corrective actions already taken during this past year, some eight pages of actions, starting with the establishment of the first Bureau of Student Financial Assistance in the Office of Education in March of 1977. This committee held hearings last fall on the student default problem.

In August of last year, Mr. Kornfeld assumed the position for student financial assistance, and for the first time in the student loan program, began an organized effort to collect student loans.

We discovered in our hearings last year that, when a student loan went into default and Uncle Sam picked up the paper by paying off the loan, it was not even the practice to send a letter to the student saying now you owe Uncle Sam money.

To the best of our knowledge, until some time late last year, no student in default ever received a single communication from the Federal Government asking them to pay the loan.

It is somewhat unrealistic to expect that people who owe money on a student loan, as a part of other obligations, are going to meet that obligation as readily as those obligations that are called to their attention regularly with suggestions of actions in the event that they do not make payments.

It is very clear, in other words, that the student loan repayment rate has been phenomenally high considering the total lack of effort to collect. Well over $12 billion has been loaned out. Approximately $800 million in loans are not current, so they are considered to be in default.

I do not think that any businessman would expect that, if he had let somebody incur indebtedness and waited 5 years before he sent a bill for it, he would have that rate of return.

The fact is that the students under these programs have had a formidable return rate without any effort. The interesting thing is that payment rate for guaranteed student loans has been better than the payment rate for veterans loans, where the Veterans' Administration claims that they have, in fact, made attempts at collection.

The Secretary's announcement today of a rather tough program for the implementation of the several steps that they have already taken to collect student loans, I am sure, is going to have a salutory effect in getting money back just by its publication across the country.

One of the troubling things that we discovered last year—and this committee has been into it before—the 1976 amendments have a number of provisions in them that were intended: One, to get the Office of Education busy collecting loans; and two, to facilitate the collection by giving them the power to negotiate methods for bringing people who were in default back into the fold.

To the best of my knowledge, until November of last year, nothing had been done to utilize these 1976 amendments by the previous administration, or this administration. It has taken all of this time, starting last March, to get cranked up to do it.

We found, for example, that if someone who was in default on a student loan decided that he or she wanted to catch up with the obligation and walked into any congressional office with this desire in mind, no one could tell them where to go. There was no place to go because the Office of Education had no procedure where they could be refered to someone who would sit down with them and say, "you are this far behind; if you will pay a little extra each month and catch up what is behind, you can finally get back in business." That is the common practice in the commercial field.

As a matter of fact, it is the practice in Government when we have defaults on FHA and VA. When the papers are taken over, there is a continuing effort thereafter by the Federal Government to collect the money that has been put out on the loan guarantee.

We certainly hope that the initiatives that the Secretary is announcing this morning will have the effect of reducing student loan default, but, more importantly, will give us finally some idea of who, in fact, is defaulting and why.

It only came to my attention during the late summer of last year that, in fact, most of the student loans that are involved in default are from extremely low-income students, people who came from low-income backgrounds and, for the most part, returned to the same environment.

It was not until 1973 that the first BEOG money started to flow, and SEOG money, and began to ease the pressure on the low-income student reaching college.

We found, for example, by category that one of the highest rates of defaults occurred with people who had been trained to be schoolteachers, and this committee certainly understands why it has been very difficult for someone trained as a schoolteacher to get a job in that profession. We have schoolteachers driving buses and washing cars and doing everything else in this country. It is a condition that was aggravated by the recession but has been, now, a continuing phenomenon for some several years.

We see the story that pops up occasionally where someone says, "I am not going to repay my student loan because I was educated for a particular profession and I found that there is no employment available in that profession."

When all of these things are taken together, it would appear that aggressive action by the Department of HEW and the Office of Education could reduce the student loan default and identify the amount of the default that is, in fact, more than we realized. But very frankly, it is hard to see how they are going to wipe it out entirely, because the realities of life are that not everyone who finishes college is guaranteed meaningful employment, or at least guaranteed meaningful employment in time to start meeting the student loan requirements.

We have had some proposals floating around, one that has been suggested to the committee by Neal Smith of Iowa and Bill Steiger of Wisconsin where, in lieu of full payment under a preset schedule, you would permit students to pay a percentage of their income over a longer period of time.

In other words, sort of a tax on what they earn, but you would have the effect of stretching out the collection time for student loans, and it would keep them from going into default because they were making a payment based on their ability to pay.

So those are things that I am sure this committee will be considering along with the question of greater enforcement, but I think, really, largely with the initiative of people like Mr. Quie, in 1976, the machinery was put into motion to begin to collect student loans that should reduce the loss to the Government to a minimum.

Mr. **Zaglaniczny**. Let me say that COPUS certainly hopes this default problem is settled, whatever the costs. I do not have that much of an insight into HEW. I would have to take a look at what they are going to do. I would hope that the Government, in their loan collections, will not harass students, will in fact—I know we will be sending a letter to Secretary Califano and I hope that these efforts that they are taking follow the Fair Debt Collections Practices Act that the Congress has recently passed, because I do not think a government has a right to harass people in their collection efforts when the private business sector, those collection agencies, cannot harass people anymore.

So I would hope that the HEW guidelines would fall within the scope of the Fair Debt Collection Act. I fear that the Government's collection process could be far more abusive than the private sector's. So I would hope that those guidelines would fall within the purview of the Fair Debt Collection Act.

We cannot have the Government harassing people when the private sector cannot. I am not saying anybody should harass.

Mr. **Ford**. We discussed that at some length with the Secretary and with Mr. Kornfeld. We have been assured that our regulations are within not only the letter, but the spirit, of the Debt Collections Act.

But one of their immediate problems is that it has been discovered that more than half of the defaulted student loans belong to people that no one in the Federal Government has an address for. We do not know whether they are alive, whether they are working, what happened to them. They have been going through a process for several months of simply trying to find these people.

Had there been some communication in the past, at least there would have been a letter returned saying that they do not live at the same address anymore. Presumably, if you take low-income students, living under adverse conditions during college, you will find they are not going to be living where they did before they went to school. No one has done anything in the Federal Government to try to maintain contact with these people.

Heretofore, there has been little incentive for the lender to make any real effort to collect the money before turning the paper over to the Government because they would get their money anyhow. It was easier to pass it on to us.

The 1976 amendments tried to tighten that up a bit, and we have heard some complaining about that. We expect that the institutions involved are going to make a better effort than they have in the past, as well.

Mr. ZAGLANICZNY. On a personal note, at the end of this appropriations process, I expect to leave COPUS. This will be 2 years and too much blood pressure has gone up. It is time to move on and go in other directions.

I do not know that this committee will be having other hearings where I will have another opportunity to testify, but I want to commend Mr. Ford, Mr. Quie, and other members of the committee for all that you have done for students in the independent sector. We are most grateful and I have to say thank you for all of the consideration and efforts you have had in communicating with me and making my job a little bit easier, and we are happy to support you and make suggestions.

It has been very personally rewarding for me. I have to say that watching you on the floor of the Congress fight for students, whether it is on student bankruptcy or the Michel amendment, has been most gratifying, and you have to be characterized as a prostudent chairman, and we are most grateful in the independent sector for all that you have done for us.

On that personal note, thank you for all you helped me.

Mr. FORD. Thank you very much.

Haskell Rhett, president, National Association of State Scholarship and Grant Programs. He will be accompanied by Kenneth Reeher, president-elect, National Association of State Scholarship and Grant Programs; and John Lee, Education Commission of the States.

STATEMENT OF HASKELL RHETT, PRESIDENT, NATIONAL ASSOCIATION OF STATE SCHOLARSHIP AND GRANT PROGRAMS, ACCOMPANIED BY KENNETH REEHER, PRESIDENT-ELECT, NATIONAL ASSOCIATION OF STATE SCHOLARSHIP AND GRANT PROGRAMS, AND JOHN LEE, EDUCATION COMMISSION OF THE STATES

Mr. RHETT. Thank you, Mr. Chairman.

I have John Lee sitting at the table with me. I might mention that I am also assistant chancellor of higher education in the State of New Jersey and am responsible for that State's loan and grant programs.

Ken Reeher, who has a similar responsibility for Pennsylvania, is seated right behind me, and we also have in the room today Ernest Smith, who has the same responsibility for the State of Florida and who is the president-elect of the National Council of Higher Education Loan Programs.

I have distributed the testimony to the committee, and I will not attempt to read it here. I will try to summarize some of the major points.

Mr. Ford. Without objection, the prepared statement will be inserted in full in the record at this point. You may add to it as you see fit.

[The prepared statement of Haskell Rhett follows:]

Testimony of Dr. Haskell Rhett, President, National Association of State Scholarship and Grant Programs

I would like to thank Chairman Ford and the members of the subcommittee for this opportunity to comment on this significant new initiative in student aid. I am doing so on behalf of an Association comprised of the fifty-three states and territories which sponsor and fund need-based grant programs for their residents. In the last year these programs provided over $750 million in grants to over 1 million students in postsecondary education.

This Association has long supported the expansion of coordinated Federal programs of student aid, and has been on record as opposing general tax credits for higher education expenses as an uncontrolled and regressive means of furnishing economic relief to needy middle-income families. Accordingly, I am pleased to offer our strong support for the current legislative initiative to expand Federal programs of student aid.

The main point I have to make today is to remind the Subcommittee of the real benefits of a State-Federal institutional partnership in this endeavor. Secretary Califano's testimony to the Joint Hearing on February 9 recognized the extent of State and institutional matching funds in student aid. Indeed, the institutional matching portion for Federal campus-based student aid in public institutions of higher education is usually drawn from State funds, in addition to the State funds used to administer Guaranteed Student Loan agencies and to directly match State Student Incentive Grant (SSIG) funds. In this regard it is puzzling that none of the Administration or Congressional proposals put forth to date recognize the real impact available through an increase in funding to the SSIG program. The fact is that no other avenue of funding can guarantee a dollar for dollar grant impact on middle-income families, as every Federal dollar so allocated would be matched by a State dollar. If these expenditures are targeted toward hard-pressed middle-income families, the resulting economic relief will be at least twice the amount of Federal funds so designated.

Accordingly, I would like to suggest that approximately $50 million be designated as a supplement to Federal SSIG funding in fiscal year 1979, in addition to the $77 million now recommended in the Administration's budget. This supplementary sum should be earmarked for need-based grant funds to be expended by states for students from families with incomes ranging from about $12,000 to $30,000. This intended range would have a targeting effect, but would retain flexibility necessary so that States could use existing and modified grant programs for the distribution of these funds. Under this suggested scheme the amount of the original fiscal year 1979 recommendation would be distributed under present SSIG procedures, with these supplementary funds available for States that would match them with State dollars to be expended in the same income ranges. Although not every state might be able to generate sufficient matching funds to participate fully, our estimates are that at least the necessary $50 million of State funds would be designated as matching funds for this purpose, thus guaranteeing their distribution to families from these income levels. We estimate that this amount might contain $7.5 million in newly appropriated State funds to be so expended during 1979–80. This approach also acts against the possible displacement of State aid with Federal dollars, which could occur if Federal programs are expanded with no incentives for a coordinated State expansion of aid.

If these new funds are to be generated by states and targeted to middle-income families certain existing SSIG provisions that restrict, or will restrict, expanded State participation should be technically corrected: the distinction between initial year and continuing grants should be removed, the fixed base year for eligible matching funds should be changed to a "rolling" base, and existing state judicial, legislative, and constitutional constraints should be recognized with regard to the participation of all non-profit institutions. These technical provisions now stand as a deterrent to program growth.

Sufficient time exists if these provisions are included now for States to begin planning for the generation of matching funds, and an effort as critically important as this one deserves to have the States as full partners, both in terms of joint funding and shared goals.

These comments obviously reflect our concern that increased funding be accomplished in a coordinated fashion across programs, and bring to mind a few related concerns. Many State programs now key their student aid grants directly to the family's estimated ability to contribute, and thus are particularly sensitive to changes in any Federal estimate of that ability and changes in the award schedule for Basic Grants. As a partner in the National Coalition to Coordinate Student Aid, we share the view that a nationally Uniform Methodology should be used to estimate this family contribution. This contribution is directly responsive to income levels, of course, so award schedules that are in relation to that contribution, rather than flat awards across a range of incomes, are generally more desirable. Thus, I would suggest that certain features of Senator Pell's suggested Basic Grant schedule are desirable in that the extent of flat awards is diminished and does not begin until the $20,000 income level. At the same time, attention should be given to the taxing rate suggested, if such an approach is to be adopted, so that it is in line with the Uniform Methodology rather than representing a further departure from it. The effect of a radically revised Federal definition of family contribution might be to create greater need in many cases than could be compensated by the increased award schedule.

As many of the State agencies in the Association also administer Guaranteed Student Loans, I feel it is appropriate to note that the intended expansion of that program will meet real financial needs, but can only be accomplished with real incentives for participating lenders, beginning with a floor 8 percent special allowance, with an additional fraction for loans entering repayment, as recently recommended by a Committee in this area.

We would also recommend that the net funding (allocation less returned funds) of campus-based programs be examined before enormous increases are requested or applied to these programs. We support expansion of the SEOG Program and the flexibility it affords campus aid officers faced with centralized programs. In a program like College Work-Study, however, there exist certain inhibiting factors, such as the ability to create additional jobs in academic departments, that act to curtail the expenditure of funds even at the presently appropriated levels. For this reason in New Jersey we withdrew a legislative initiative to create a State Work-Study Program that would appropriate further funds with more lenient rules for campus jobs, as our advice from the institutions was that we had reached saturation in this area.

Again, I thank you for this opportunity to present the views of the Association. We stand ready to work with you in whatever capacity might be helpful to assist in the speedy enactment of this legislation.

Mr. RHETT. Thank you, sir.

First, I would like to indicate our association's strong support for this initiative for increased student aid, by the extension of existing programs. We are on record as opposing the tax credit approach. We are prepared to talk about some of the reasons, but I think they will be well covered in other testimony, as far as the uncontrolled national distribution, some of the even regressive distribution of dollars to families. And we support a need-based approach to expansion of aid to middle-income families.

I might mention that the association currently through its programs aids over 1 million college students and we disburse about $750 million a year through our program grant funds. And it is that point that I want to talk about today.

The data that we have—and which we will be glad to share with your staff—show that our programs across the 53 States and territories do a better job of reaching middle-income families and students with grants than the existing Federal programs. That is not surprising, since many States have a long tradition of grant programs to students who attend high-cost colleges. And we estimate, based on some rather large sample surveys we have, that between 40 and 50 percent of our grants go to families with incomes over $12,000. It is quite a different statistic than comparable data for the basic grant program.

We think we have the vehicles in place that already can provide increased aid to middle-income families. Therefore, it was puzzling to us to see that in any of the administration or congressional statements, there was no mention of the State student incentive grant program as a vehicle for expansion of aid to middle-income families.

We talked about this with quite a few people on the State scene. I know Mr. Buchanan has brought up this point in the joint hearings.

One of the concerns that we have heard is that if additional funds are made available for the SSIG program, perhaps the States would not put any new money in. Perhaps we would match with the money that is already designated for matching, since it is known that States overmatch the SSIG program on an aggregate national level, as high as 12 to 1, rather than 1 to 1. But I would like to speak in a pragmatic sense about the impact that we could have on middle-income students, if some of these funds would get into the SSIG program.

Mr. FORD. If I could interrupt you at that point, the question of SSIG was discussed in preparing this legislation but the authorization on the books, which will come up for renewal next year, and is already considerably more than the appropriation.

The President's budget for the year has a slight increase from $66 million to $77 million for SSIG.

Our problem is to get that fiscal appropriation to a more realistic amount.

Mr. RHETT. I would like to suggest that there are ways, if that increase passes the $77 million administration recommendation for fiscal year 1979, to generate significant State funds—which would go, in large part, to middle-income families—as the increase itself recommended in the fiscal year 1979 budget does not have that much of an impact. There are several reasons for this. They are fairly technical in nature.

The one that is most easily understandable is that in the different States—my own, for instance—the base year is unchanging, so my amount of matching funds, if you will, has been set since the inception of the program. There is nothing dynamic about that.

Large States, such as New Jersey and some of the other large student aid States, have significant programs and can sit there and match every year at the present level of funding without ever increasing State appropriations.

We do not think that is the spirit of the SSIG program. Certain technical adjustments, like moving to a rolling base year 2 years before the allocation year would have the effect of driving the programs to appropriate more State dollars every year. I can give you an illustration of the difference.

I would suggest, for instance, that $50 million be added to the 1979 recommended budget. If none of the rules of the program were changed, that would have the effect of adding only about, we estimate, $7 million to $8 million of new State money. We would match the $50 million with existing funds, primarily.

If we shifted to a rolling base year, we estimate that would bring in $22 million or $23 million of new appropriations on the State level.

Now, if the spirit of this legislation to assist middle-income families is going to be a balanced one, it should involve the States as partners with shared goals and shared funding. I would suggest that it is a strong opportunity to make that technical change, to increase the designation of funds to the SSIG program, and thus generate badly needed State matching dollars out of new appropriations.

I can talk more about what technical changes need to be made.

Mr. Ford. Would you care to comment? Do you have a copy of the bill in front of you?

Mr. Rhett. No; I do not.

[Pause.]

Mr. Ford. It is easier to work from the bill. On page 4 of the bill, line 25 at the bottom of the page, there is an amendment dealing with SSIG. Section 415 of that act, as amended in 1976, is amended by striking out the $75 million and inserting, in lieu thereof, $100 million.

If you would refer back to section 415(e) of the Higher Education Act, you will find that the effect of that would be to provide an increase in the ceiling from $75 million to $100 million, the ceiling being a point at which new appropriated money, instead of going to the existing program, would have to be allocated on a bonus basis.

Mr. Rhett. I would prefer an approach that would keep the trigger limit at the $75 million level and then have a rolling base year, what we call a two-tiered approach. Let the ground rules stay basically the same for the first $75 million to insure some stability in the program. States do not lose any of the level of funding that they are now matching. Above $75 million, we would suggest also retaining the GSL incentive. Then for the remaining money, we would suggest some fairly simple language that would establish a rolling base year and that would be what would drive States into new State appropriations.

The new State appropriations, we contend, would then feed these programs that now reach more middle-income students than any of the Federal programs.

If I might point out another advantage of this approach, if you provide all of the growth in a centralized, federalized program and campus-based Federal programs and provide no incentives for growth on the State front, my theory would be that you would see a displacement of State dollars with increased Federal funding. And I think a balanced approach to the problem would be to provide the incentives suggested to the States so that they have to grow along with the Federal programs, rather than backing off the street and saying that since this new basic grants schedule is aiding these students, we States do not have to expand our aid to that income group.

I can tell you from experience with State legislators that this would be a very real topic of discussion, unless there are some balanced incentives for States to grow along with this initially, rather than standing on the street and watching it go by.

Mr. Ford. I would invite you to submit the specifics of what you propose. I ask you to bear in mind that one of the effects your rolling base year approach has is to say to a State that has been a pioneer and has had considerable expenditures in their programs that we are constantly going to be rolling away from you and only rewarding the latecomers who come in.

It will have the effect—and that is what it was designed for—of bringing more people in and getting more State money. At the same time, it has the effect of using more Federal expenditures only for those people and not treating as well those States that have been in the business and have been making that substantial commitment.

Mr. Rhett. The effect of a fixed-base year, Mr. Chairman, is again—putting the spotlight on my own programs, since we had a level of growth between a particular year which is fixed forever as our base year—no incentive for us in the interaction of the SSIG program to grow further. We have something on the order of $7 million of overmatch every year. The SSIG program would have to reach funding of $200 to $300 a year before it would have anything else in it for us to match with new funds.

What I am suggesting is that this combination of retaining the fixed base year for the first $75 million, leaving that language alone, but adding in a two-tiered approach, puts the whip to us again who say that since we did a good job in the early 1970's of expanding our programs we can now relax. This will say no; you cannot. If you want the supplementary funds you have to keep going, and I find that a powerful weapon in dealing with my State legislature. I do not have that weapon now. I do not have anything from SSIG, except that you can get the same amount from the match. There is no incentive to increase the appropriations. We have to find other reasons on the State front.

I will be glad to furnish the subcommittee staff with our suggestions for legislative technical language. We do have the sections marked up and today we can give them to you.

I have a couple of other remarks on Congress' initiative.

Mr. Lee. I think SSIG was successful, drawing many of the States not in the arena. In all of these programs, independent colleges are in all the States' programs now, the students attending them are receiving awards, and I think that was the concern in 1976 and I wanted to indicate to you that all States now are awarding State grants to students in the independent sector and that it looks like a good time at this point to think about a second generation of incentives, as has been outlined.

Mr. Rhett. Turning to the basic grant additional funding, as a member of the National Coalition to Coordinate Student Aid, I am very concerned with what is called the uniform methodology and how we determine a family's ability to pay. Those rates of contribution we tend take fairly seriously, and it leads me, and some other people in my trade, to not always be in favor of flat grant rates across a large number of income levels.

I would simply urge the subcommittee to consider some of the approaches such as the ones Senator Pell is advocating, not so much in reference to the specific percentage taxation rates—I think that those are open for discussion—but any approach that does result—I think Mr. Quie was mentioning this earlier—in a more sloping table of grants after the $20,000 level and beyond.

It is an approach that would generally fit in better with State programs since most of them adopt the outook that this contribution has a relationship to income levels and therefore our grants step down. Very few of us give flat grants across any wide spectrum of income levels.

That is simply something on behalf of a number of States that I would like to bring to your attention. Technically, we think there is more reason to keep with the practice of the State, such as the uniform methodology, in looking at that graduated level of grant that is brought by uniform taxation rates rather than setting a flat grant from $16,000 on up.

I would also like to say that we support expansion of aid for the campus-based programs; the SEOG program in particular is well known to be helpful as we become more centralized in the Federal programs in having a significant amount of funds available for judgments in individual circumstances on the campus. This is extremely critical, especially in high-cost institutions of study.

The work/study program, I think, should be looked at in terms of net allocation before large increases in Federal amounts are made in support of that program. Many of us in the States have watched as our States have returned college work/study funds and have reached a point where some of the campus officials say they have reached saturation. A program like this has certain inherent restraints in the ability of campus departments to create jobs.

Although the program probably can stand some expansion, I think a net approach should be taken to that, seeing what the Federal outlays have been and seeing what the returns have been, the deobligated funds, the reverted funds. In some States such as mine, we have seen on the order of a magnitude of $1 million a year returned unused of college work-study funds. So it bears close scrutiny to what the rules will be and how that money is applied.

Finally, since many of us operate student loan agencies as well, I would like to return to the topic of your discussion before I came to this table and say that the expansion of that program is important and some of the initiatives we are hearing now are welcome, but the incentives to lenders have to be real. I do not have to run through with you the relationship of private capital to program expansion. We see an expansion encouraged by program rules, although there are certain regulations interpreting so many things in the 1976 amendments that are strange and wonderful to behold. The ability to keep lenders successfully involved in a substantial portfolio investment is critical. Thus we urge you to look carefully at the special allowances and incentives.

I think that the floor of 8 percent that has been suggested is worthwhile. You might consider going up higher, having some percentage increment for lenders based on the amounts in repayment as an encouragement to them, an incentive in the right direction.

I also point out with regard to your remarks about default collection that 4 years ago there were large States offering HEW their entire software packages that notified people of default, kept track of their home address, and correspondence with those students. These offers were not accepted.

Our default rates, as you know from previous testimony, in the State agency guaranteed loans is significantly less than any direct Federal loan program.

We would like to keep that straight on the record. As we discussed some of these problems with HEW, collecting some of these defaults, we would also like to mention the flexibility in arranging repayment schedules, as mentioned earlier. That flexibility is inherent in our program now. It is simply that the conditions do not exist to encourage lenders to use that flexibility.

Often in my State, for instance, we have turned over loans in default where no effort has been made to adjust to a condition of unemployment. We then make that adjustment and get that loan back on a paying basis. Our default rate in our State may be 7 or 8 percent, but our rate of uncollectables is 1 percent. This is $100-plus millions a year in guarantees, in the third largest State guarantee agency in the country.

So I think that many of the conditions that let this program be run well now exist. It is just that the full cooperation of the lenders has to be maintained and expanded to use some of the rather labor-intensive procedures that can result in successful collection.

Mr. FORD. Have you had any opportunity to convey this to Mr. Kornfeld in his efforts to establish the new program of collection?

Mr. RHETT. The answer is yes. We have attempted to have meetings. I know the National Council of Higher Education Loan Programs has had several meetings with its executive council and Mr. Kornfeld, trying to bring out the general points that we have made, for instance, that something on the order of 28 States with loan agencies that now have these procedures in place.

The massive Federal collection procedures, though making good newsprint, are not as effective as turning over collections to States on a cost-plus basis, where we already have the collection procedures established—and very successfully, according to data compared to Federal programs.

I cannot see any movement in this direction as a response on the part of that Bureau. Whether Mr. Kornfeld intends to move in that direction, I do not know.

You could ask Mr. Smith, who met with Mr. Kornfeld. If you would allow him to speak to that point, he has been directly involved on behalf of the loan programs.

Mr. SMITH. Mr. Chairman, I would only respond to your question and say I do not think it is a failure of the agencies to understand. There appears to be a concern on the part of the Office of Education about seeing a reorganization get into place before it begins to function, as you have alluded to earlier.

Expanding my response—representing a new State, a State responding to the 1976 Amendments where they created a State guarantee agency—the incentives are today promises about what might come down the road, as opposed to being able to take the action that you took and transfer that to lenders who must wait for a rather cumbersome rulemaking process to define what the intent was before we may implement that and give it to the lenders.

I did not come today with a prepared statement for the national council, but that would be, I think, a response that we could agree with.

Mr. FORD. I wonder if you would be willing to prepare something to give us?

Mr. SMITH. Without a doubt.

Mr. FORD. That is an interesting approach. It has been my observation that we are determined to bring about some rational solution to the problem. I have never dealt with a problem here that has so much mythology attached to it and is so difficult to get a handle on, because almost everyone on this committee has discussed the whole problem and has a slightly different idea of where the problem lies.

The one thing that everyone agrees on, at least at the Federal level, is that little or nothing has been done in the past. That statement just made about the offer of a software system already in existence strikes me as rather hard, because in the early stages of talking with the administration about moving, it seems that one of the problems they had to wrestle with was how to develop their own software. If they could walk in and use a pattern that is already developed and start with that base, presumably we are talking about some of the largest lending States, the 28 that have this capacity, if for no other reason than they have been in the business longer than others.

We solicit from all of you here the specifics of how we might try to urge them to move more quickly in utilizing those resources.

I wish you would submit, on behalf of your organization, your suggestions about how we can put real incentives in place in a clear, concise language, perhaps even as a part of this bill so we do not have to wait for someone to try to write a regulation.

Usually by the time the regulation interprets our intent, we do not recognize it anyway. We would like to write it as specifically as possible.

Mr. RHETT. Some of us who write regulations on the State level see it from both sides. We are both guilty parties, and we also accuse the Federal level, too. It is a complicated problem.

Mr. FORD. Mr. Buchanan?

Mr. BUCHANAN. Mr. Chairman, I agree with you about being as specific as possible. I appreciate the help of your experience.

Mr. FORD. I made the mistake of visiting my State legislature yesterday where I formerly served as a State senator. It was a mistake in the sense that it was a fairly nice experience all the way around until all of the people concerned with legislation came to me to explain why their ideas of what we should be doing were so far superior to ours. I felt a little bit like the position you expressed yourself being in as a writer of regulations and also as a complainer about somebody else's regulations.

Their attitude made it very clear to me that they did not really expect that my absence from that State legislature for a period of time would permit me to understand that things are different from that perspective.

Mr. **Buchanan**. Mr. Chairman, I recently held a seminar for local public officials from my congressional district here in Washington so they could meet with various people from governmental departments and agencies to learn ways to get taxpayers' money out of the Federal Establishment.

One of the persons who addressed us in this session was a regulation writer. He told us two things. The first was that he was from Birmingham, Ala. The second was that he wanted to come to the seminar to represent his agency to demonstrate that there can be a regulation writer who does not have two heads.

Mr. **Ford**. Thank you very much.

Dallas Martin, executive secretary, National Association of Student Financial Aid Administrators; Arthur Fritz, director of financial aid, Syracuse University, director of the Commission on Government Affairs; and Donald Holec, director of financial aid, Purdue University, chairman of the Committee on title IV student aid programs.

Without objection, the prepared statement presented to the committee will be introduced at this point in the record and you may proceed, Mr. Martin, with your panel.

[The prepared statement of Dallas Martin follows:]

STATEMENT PRESENTED BY A. DALLAS MARTIN, PH.D., EXECUTIVE SECRETARY, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. Chairman and members of the Subcommittee, I am Dallas Martin, Executive Secretary of the National Association of Student Financial Aid Administrators, an organization which represents more than 1,418 institutions of postsecondary education. Accompanying me today is Mr. Arthur Fritz, Director of Financial Aid at Syracuse University, and Director of NASFAA's Commission on Governmental Affairs.

We wish to thank you for the opportunity to comment on the recently introduced legislation, H.R. 10854, better known as the "Middle Income Student Assistance Act." President Carter and Secretary Califano are to be commended for taking the initiative to support a proposal of this type which will help thousands of students from hard-working, middle-income families to obtain a postsecondary education. Needless to say, in addition to congratulating President Carter and his Administration, we also sincerely wish to thank you and the other members of Congress who have developed and supported this and similar initiatives designed to assist middle-income students and their families.

Your careful consideration and speedy enactment of this measure is particularly important when one considers that there are tremendous pressures mounting from middle-income voters who are truly in need of financial assistance to help pay for their childrens' postsecondary education.

While it is easy to see why so many view tuition tax credits as the most expedient solution to provide relief to parents for postsecondary expenses, I think it is time for members of Congress and the American public to take a more careful look at the problem.

Everyone with a child currently enrolled or about to enroll in postsecondary education is certainly aware that the costs for such are much larger than they originally thought. However, the same could be said for most other major purchases which families make today, including houses, automobiles, and even hospitalization insurance. And, therefore, it is even more important that we analyze the alternatives very carefully, for after all in the final analysis, it is the same working American who needs help currently who will pay for the solution you choose through part of his tax dollars for years to come.

Therefore, it is appropriate that we carefully weigh the advantages and disadvantages of tuition tax credits versus increased funding in existing student aid programs to find the best way to help the income populations we desire to assist.

Those who favor tuition tax credits argue that they have the following advantages:

STATED ADVANTAGES OF TUITION TAX CREDITS

1. Tuition tax credits do not increase the federal budget;
2. Tuition tax credits are easier to administer than student aid programs;
3. Tuition tax credits are fair in that they provide the same subsidy to all families;
4. Tuition tax credits do not require an increased bureaucratic framework;
5. Tuition tax credits do not set the precedent of making transfer payments to the middle class, as student aid funds would;
6. Tuition tax credits help to maintain the pluralistic nature of our higher education system.

While these arguments are appealing at first glance, it is important to review them and their disadvantages more carefully.

DISADVANTAGES OF TAX CREDITS

1. While the federal budget may not increase, the loss of revenue from the U.S. Treasury would be a minimum of $1.7 billion in FY-78 alone, for a $250 non-refundable credit, and as much as $2.5 billion for a $500 credit. In addition, all such tax credits become entitlement benefits which are not subject to appropriations. Once amounts and eligibility requirements are spelled out, everyone who meets the criteria is eligible for the benefits, and program costs are uncontrollable. Further, in future years, the pressure to raise the amount of the credit or expand eligibility for it will become overwhelming. Thus, outyear revenue exposure becomes greater and funds to expand eligibility for direct spending programs, that we know work, become much more scarce.

2. The ease in administering tuition tax credits is totally based upon the type of legislation passed. If limitations and restrictions are a part of a tuition tax credit, then the administrative burdens are substantially increased. For example, several tuition tax credit bills currently pending in Congress limit eligibility to full-time students, or require that other types of federal grants or private scholarships be deducted from the credit. Obviously, these types of restrictions raise serious questions as to how the Internal Revenue Service might audit individual returns for compliance with such restrictions, and whethor or not institutions will be required to sign affidavits for individual taxpayers to substantiate such claims. Such restrictions, without proper monitoring, will, undoubtedly, invite taxpayers to abuse the provisions.

3. While tuition tax credits appear to be fair, they do not benefit all families in the same way. Families with lower incomes frequently do not receive all or even any of the credit because their tax liability is too low and most tuition tax credit bills are not refundable.

   In addition, a recent CBO report entitled, Federal Aid to Postsecondary Students: Tax Allowances and Alternative Subsidies, indicates that a non-refundable tuition tax credit of $250 per year would be distributed as follows:

SIZE AND DISTRIBUTION OF BENEFITS
UNDER A NON-REFUNDABLE TAX CREDIT OF $250
COSTING APPROXIMATELY $1.7 BILLION IN FY-78 a/

	Adjusted Gross Income Class (Dollars in Thousands)			
	0-10	10-25	25	All Groups
Aggregate Benefits (Dollars in Millions)	223	831	628	1,682
Percentage of Total Benefits	13.3	49.4	37.3	100
Average Benefit Per Eligible Student (Dollars) b/	143	160	213	174

a/ CBO estimate based on data from the U.S. Bureau of the Census; data from the U.S. Office of Education, National Center for Education Statistics; data supplied by Joseph Froomkin, Inc.; and tax data published by the U.S. Department of the Treasury, Internal Revenue Service.

b/ The average benefit for students with family incomes above $25,000 is greater than that for students in the $10,000-$25,000 income class because those in the higher income group are more likely to attend school on a full-time basis. The average benefit for full-time students in both of these income classes would be $250. Many full-time students with family incomes below $10,000 would not get the full credit because the family's tax liability is less than $250.

Source: Federal Aid to Postsecondary Students: Tax Allowances and Alternative Subsidies, Congressional Budget Office, January, 1978.

There is also another way in which tuition tax credits are unfair as they relate to people who are applying for other forms of need-based student aid.

Presently, in order to be considered for most federal campus-based programs, as well as for most need-based state and institutional funds, a student and his or her family are required to fill out a need analysis form. These documents collect data on a family's income and assets, as well as their liabilities, in order to compare the relative financial strength of one family with another. As part of this evaluation, certain non-discretionary items are deducted from each family's gross income. One of these deductions is Federal Income Tax. The reduction of non-discretionary items such as taxes is a means to determine the amount of a family's available income in order to determine how much is actually available for a parent's discretionary use. From this discretionary income, marginal taxation rates are applied to determine the contribution the family can be expected to provide to meet postsecondary educational expenses for their children. If a tuition tax credit measure were approved, thereby reducing a family's overall tax liability, under the existing need analysis formulae the family's eligibility for other need-based assistance would also be reduced between ¼ and ½ of the amount of the tax credit. The following example explains what I mean:

Take a typical middle-income family of four making $20,000 a year, with one child in college and no unusual assets or circumstances. We can see what happens to the student's eligibility before and after applying tax credits to the need analysis formulae:

Family Without Tuition Tax Credits		Family With Tuition Tax Credits	
Total Income:	$20,000	Total Income:	$20,000
Minus deducations for:		Minus deductions for:	
Federal Income Tax:	2,500	Federal Income Tax:	2,250
F.I.C.A. Tax:	1,071	F.I.C.A. Tax:	1,071
State & Other Taxes:	1,400	State & Other Taxes:	1,400
Standard Maintenance Allowance:	7,650	Standard Maintenance Allowance:	7,650
Available Income:	$7,379	Available Income:	$7,629
Contribution from Assets:	-0-	Contribution from Assets:	-0-
Adjusted Available Income:	$7,379	Adjusted Available Income:	$7,629
x AAI Taxation Rate* = Parental Contribution:	$1,818	x AAI Taxation Rate* = Parental Contribution:	$1,892
Cost of Attendance:	$4,000	Cost of Attendance:	$4,000
- Parental Contribution:	1,818	- Parental Contribution:	1,892
=Student Financial Need:	$2,182	=Student Financial Need:	$2,108

NET DIFFERENCE: $74.00

After all calculations are complete and the marginal rates are applied in this example, the same student with a tax credit of $250 is eligible for $74 less in other need-based aid than he or she would be without the tax credit. At higher income levels, the tuition tax credit is reduced to nearly one-half of its original value. Further, there is no guarantee that the student will ever see the $250 tax credit, since it benefits the parents and not necessarily the student.

4. Proponents of tuition tax credits argue that such legislation would not set the precedent of making transfer payments to the middle-class, as student aid funds would. First of all, one must question whether such transfer payments are bad, particularly when one considers that, with a tuition tax credit of $500, the Congressional Budget Office indicates that nearly $600 million of such benefits would go to families with incomes of $30,000 or more. Further analysis shows that under such a proposal $432 million would go to families in the $30,000 to $50,000 income bracket, with $416 million going to

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* $1,577 = 34% AAI over $6,700.

> families in the $15,000 to $20,000 range. In addition, $25 million would go to those families with over $100,000 incomes, while only $16 million would go to families with incomes from $0 to $5,000. This is to say that transfer payments to middle-income families may not be bad if funds for such payments come from the affluent members of society and benefit needy families.

There are also two other points to make on this issue. First, there is no precedent to be set. The precedent of transfer payments is the agreed-upon concept upon which all federal student financial aid is based. Secondly, we are all feeling increased pressure from tax-paying, middle-income families who need some financial relief and who are asking for transfer payments.

My greatest fear is that, if relief is not forthcoming soon for these families, there will no longer be support for the programs and levels of funding needed for our very poor students. We would then be closing our academic doors to those very people we have attempted to assist since student aid programs began to expand in the mid 1960's. This would be a true American tragedy.

5. Some will argue that tuition tax credits do not require an increase in the bureaucratic structure of federal agencies. However, this is very unlikely, regardless of which alternative is chosen. If tuition tax credits are adopted, there would have to be additional regulations developed by I.R.S. to handle such monitoring as I described previously, as well as changes to the Internal Revenue Code and the Federal Income Tax forms. In addition, auditing procedures for the Service would be increased and yet another federal agency would now be involved in student aid.

   The increased student aid alternatives would also require some increase in the existing federal student aid delivery system; however, the structure and procedures for such are already in place and are thoroughly familiar to all parties. In addition, existing program regulations for student aid could easily be adapted, thus preventing still another set of federal definitions and rules that differ from the norm. Adoption of a tuition tax credit will inevitably lead to additional regulations at a time when we need less regulations, not more.

6. It has been stated that tuition tax credits will help to maintain the pluralistic nature of our higher education system. Such a statement obviously implies that private and public institutions will benefit equally, but there is reason to doubt that such would be the case. In fact, evidence

> shows that most tuition tax credit proposals may have an adverse affect on higher-cost institutions because they provide fixed dollar benefits rather than benefits based upon costs of education. Recently, the National Association of Independent Colleges and Universities passed a resolution opposing flat-rate tuition tax credits. Since this organisation represents most private institutions, there is strong evidence to support that they question the merit of such a proposal.

ADVANTAGES OF STUDENT AID ALTERNATIVES

Those who favor an extension of federal need-based student aid programs cite the following examples:

1. Student aid programs provide the benefits directly to the students, not the parents. All existing federal programs distribute the dollars to the student directly. Tuition tax credits go to the parent in most cases and may or may not be transferred to the student to help pay for education.

2. Student aid programs provide the benefits to the student at the time he or she is faced with paying for tuition and fees, not six to 15 months later, as is the case with tuition tax credits.

3. Student aid alternatives target the monies to those in greatest financial need, whereas most tuition tax credit proposals indiscriminately provide financial assistance to all families regardless of family income or the actual costs of postsecondary education.

4. Student aid alternatives take into consideration all educational expenses, not just tuition and fees, as most tuition tax credit proposals do. In fact, for some students who are presently attending tuition-free community colleges, there is a serious question as to whether or not such students would even qualify for some tuition tax credit proposals becasue they are tied only to tuition.

5. Student aid alternatives prevent unnecessary fragmentation of educational policy among different Congressional committees. Tuition tax credit proposals would only add additional work for the House Ways and Means and Senate Finance Committees, which already face enormous legislative responsibilities.

6. Student aid alternatives provide families with a choice of how to meet their childrens' postsecondary educational expenses by offering grant, loan and work options. Flat-rate tuition tax credit legislation would fail to take into consideration various costs of education. For example, a family sending their child to a higher cost institution with average cost of $6,000

> a year is facing an expenditure of $24,000 for four years of college. With the flat rate tax credit proposal, this family would be eligible for $1,000 in four years with a $250 tax credit. However, with a student aid alternative such as the one which has been prepared by President Carter, any family with an annual adjusted family income of $40,000 would be eligible to borrow up to $7,500 in four years and receive an interest subsidy from the government during the same period and throughout the loan's nine-month grace period of $1,706.
>
> In addition to the subsidy, the student is also able to borrow nearly one-third of this total cost of education, with a ten-year repayment period. This type of solution is more beneficial to a family which faces cash flow problems than a straight $250 tuition tax credit.

Having now reviewed the advantages and disadvantages of the two alternatives, it is clear why our Association favors the student aid alternative to a tuition tax credit approach. Let us now turn our attention to the specific legislative proposal which is before us.

If we carefully compare the Carter proposal with the current program, it is clear to see that all families with up to $15,000 incomes would receive slightly higher awards, (on the average of between $200 and $350), than they do under the existing programs. However, for most families with incomes in excess of $15,000, the Carter proposal for BEOG simply provides a minimum grant of $250. With this type of approach, almost all families between $15,000 and $25,000 are treated the same.

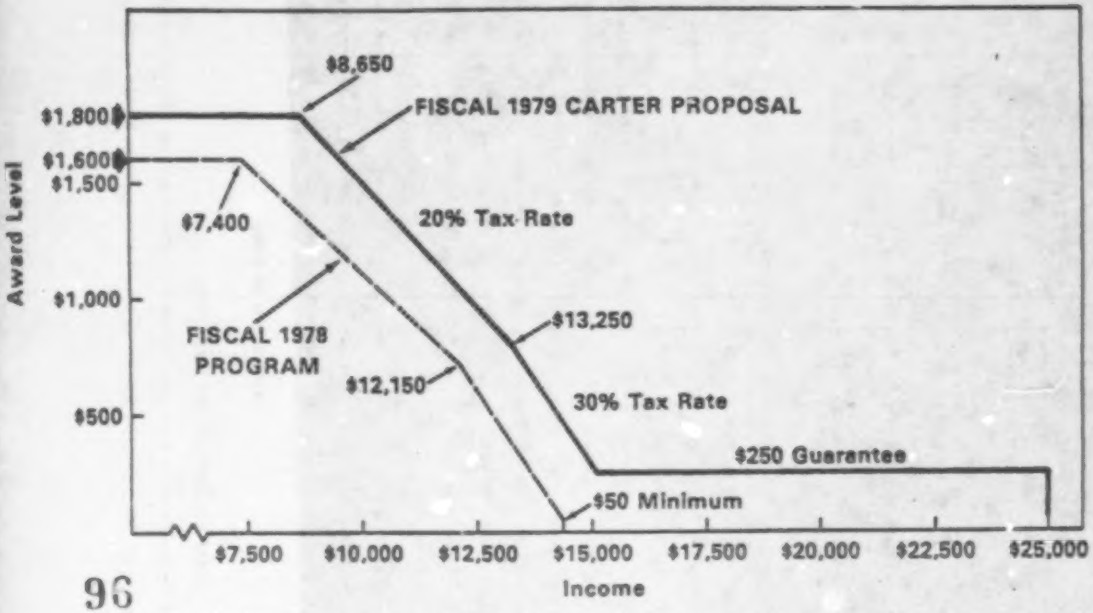
Since we know that there are differnces in the financial strength of such families, it is incumbent upon us to address these differences. In order to do this, there are several approaches that could be used.

DISTRIBUTION OF FUNDS

1. Change the Taxation Assessment Rates.

The Carter proposal keeps the current assessment taxation rate of 20% on the first $5,000 and 30% on all amounts above this level, as shown in the following chart:

BASIC GRANTS AWARDS BY INCOME
FISCAL 1978 AND FISCAL 1979 CARTER PROPOSAL



Illustrative of a family of four with one in post secondary education, no unusual expenses, average assets, and cost of attendance of $3,600.

If these percentages were changed, then the distribution of dollars would be different.

For example, if the 30% figure were reduced to 22%, then the bottom slope of the line would extend further to the right, thereby reducing the length of the $250 flat line and also providing slightly higher awards to people between $13,000 and $16,500. Program costs would increase slightly, but some equity would be added to the proposal.

Another way to modify the Administration's proposal would be to drop the two-level rate and go to a flat rate. This would produce a distribution pattern similar to that which has been proposed by Senator Pell in his bills, S. 2473 and S. 2539. Again, program costs would increase if the $650 increase in the family size offsets are maintained. However, the flat $250 award line could be reduced, depending upon which taxation rate is adopted.

Needless to say, the combinations of alternatives are almost endless, depending upon the desired objective to be achieved.

II. Indexing the Ceiling

Another alternative which has been considered by some is to index the maximum award. If this were to be done, most current award recipients, except those caught by the half-cost factor, would be benefited equally and the distribution line would be moved slightly to the right. Such proposals maintain equity, but do little to address the pressures of higher middle-income families. If no other changes are made in the program, including no changes in existing tax rates, then initial-year program costs would be increased by approximately $95 million for each $100 increase in maximum awards. Further, if in future years such award increases were automatically indexed prospectively, based upon reasonable economic factors, then there are minimal outyear costs associated with this approach. It should be noted that, if the program had been indexed since its inception, the current maximum award would be $2,100.

III. Changing the Family Size Offsets

Still another approach to be considered in addressing the distribution of Basic Grant funds is to increase the family size offsets. Currently, the family size offsets used in the Basic Grant program are based upon the Bureau of the Census (Orshansky) poverty level. By comparison, the Uniform Methodology Allowances, used with the campus-based programs, are developed from the Bureau of Labor Statistics low-income budget category. The following chart clearly shows the differences between these two sytems:

COMPARISON OF FAMILY SIZE OFFSET
BETWEEN CURRENT BEOG AND BLS LOW INCOME

Family Size	Current BEOG	BLS Low Income	Difference
2	$4,100	$4,970	$ 870
3	4,900	6,200	1,300
4	6,250	7,650	1,400
5	7,350	9,030	1,680
6	8,350	10,560	2,210
7	9,300	11,760	2,460
8	10,200	12,960	2,760
9	11,200	14,160	2,960
10	12,150	15,360	3,210

The Administration's current proposal assumes that the Basic Grant family size offsets would be increased by $650 for each allowance, or that such an amount of discretionary income would be excluded from taxation. Our Association strongly supports a move in this direction, since we would prefer to see the Basic Grant formulae and the Uniform Methodology brought closer together. Another advantage of this type of approach is that it helps all families whose children are not now eligible for a maximum award or who are not limited by the half-cost factor by giving them more realistic living expense allowances.

The costs to the total program for these kinds of changes are fairly expensive. For example, to change the current program from the BEOG (Orshansky) levels to the Uniform Methodology (BLS) levels, would cost about $880 million. On the other hand, the $650 increase proposed by President Carter costs about $200 million. If the family size offsets were increased by $1,300, which is closer to the average dollar difference between the two allowances, then program costs would be increased to between $400 and $450 million.

Now that we have examined the three basic ways to change the distribution of the Basic Grant funds, we must come back to the central objective. While it is clear that everyone has different ideas about this subject, our Association would favor a proposal which would:

1. Insure that awards to the neediest families are not being reduced at the expense of the less needy.
2. Help all families receive realistic family size offsets to more accurately estimate the true living expenditures associated with today's cost of living.
3. Distribute federal grant dollars in such a manner to insure that such awards are reduced as a family's financial well-being is increased.
4. Minimize flat rate awards across broad income ranges, thus helping to preserve equity in the program.

We feel that this approach is not only the fairest for all concerned, but also essential if the need-based concept of student aid is to be preserved. We would, therefore, endorse the President's proposed increase from $1,600 to $1,800 for the maximum BEOG award and would, likewise, favor the exclusion of $650 in discretionary income. However, we would strongly suggest that the assessment taxation rates be modified to minimize the length of the flat line $250 awards.

While we can understand why the President's proposal suggests the minimum $250 awards, it is only fair that we express our concerns with this approach. If these minimum awards are applicable to the large number of students indicated by the Administration's figures, then serious consideration needs to be given to how such awards will be delivered.

It has been suggested that a simplified form could be used for those students who would be unlikely to qualify for the minimum $250 amount. Such a form would only require that the student indicate that his or her family income is under $25,000. While such a system appears to be very simple, it potentially could lead to wide-spread abuse.

Currently, aid administrators collect fairly detailed financial information on families of aid recipients which enables them to verify such stated information. The flat-level minimum awards do not lend themselves to this type of verification without requiring the family to complete a need analysis form. While it is true that by completing such a document, the student may well find that he or she is also eligible for other types of student financial assistance, it might be better public policy to graduate the size of the awards based upon family income with the dollars which are proposed to be available in FY-79.

Another area that we wish to address today in the Administration's proposal is the total reliance upon the expanding college-based funding through just the College Work-Study program. While there is no doubt that these funds are needed, as evidenced by the institutional requests from previous years, there is also a tremendous need for increased funding in the Supplemental Educational Opportunity Grant (SEOG) program. The SEOG program has long been recognized as one of the most effective programs to provide low and middle-income students a choice of the type of postsecondary educational institution they will attend. However, without additional funding in FY-79, this choice will be minimized for many of these students.

We sincerely appreciate that the sponsors of H.R. 10854 recognize this need, as well as the need to expand CWSP by increasing the threshold levels in the FY-80 budget year for both of these programs. However, if at all possible, this need should be addressed in the FY-79 budget.

Likewise, we would sincerely hope that additional funding could also be found for the State Student Incentive Grant program. This program has also proven to greatly benefit middle-income students. In addition, dollars appropriated for this program are matched equally by state funds, thereby maximizing capital expended by the federal government.

The current balance between Basic Grant, campus-based aid, and state aid programs has served low and moderate income families well. This same balanced approach, with increased funding in all programs, can also adequately serve middle and upper-middle-income families. Your continued support and careful consideration of these alternatives is greatly appreciated, and our Association and its members stand ready to work with you in achieving our mutual goal.

STATEMENT OF DALLAS MARTIN, EXECUTIVE SECRETARY, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS, ACCOMPANIED BY ARTHUR FRITZ, DIRECTOR OF FINANCIAL AID, SYRACUSE UNIVERSITY AND DIRECTOR OF COMMISSION ON GOVERNMENT AFFAIRS, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS; AND DONALD HOLEC, DIRECTOR OF FINANCIAL AID, PURDUE UNIVERSITY, CHAIRMAN OF COMMITTEE ON TITLE IV STUDENT AID PROGRAMS, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. MARTIN. Thank you, Mr. Chairman.

We would like to thank you and the other members of the subcommittee for the opportunity to appear before you today and to discuss with you some of the advantages of the student aid alternatives and some of the disadvantages of the various tuition tax credit proposals.

As you well know, we have been very appreciative of the efforts of not only you, but Mr. Buchanan and other cosponsors of the Middle Income Student Assistance Act for coming forth with a proposal to finally recognize the plight of the middle-income students that are having such a difficult time finding the means to finance their education in our postsecondary institutions across this country.

We are appreciative, of course, of your colleagues on the other side of the Congress in the Senate, for the work that they have done, in working with you in trying to address this need.

It is easy for us to see why so many view tuition tax credits as the most expedient solution to provide relief to parents for postsecondary expenses. However, I think it is time for Members of this Congress and the American public to take a more careful look at the problems.

One of the dilemmas with tax credits is simply the fact that they face major weaknesses from the standpoint that if they are very simple, provide broad coverage and have broad political appeal, then they also become very expensive and they become very unfair, and you lose a lot of equity.

On the other hand, if you put a lot of restrictions on tuition tax credit legislation in an effort to try and control it so that you can manage expenditures and try to make sure that the dollars are directed to where they should go, then these tax credit proposals become cumbersome and really are not any different from the other kinds of student aid programs that we currently have.

I think this basic weakness affects all tuition tax credit proposals that we have seen.

For this particular reason, Mr. Chairman, we have opted very strongly to favor a program, such as you have suggested, that would keep the existing student aid delivery system intact and also add to it. We have felt for years that current student aid programs have done an excellent job of serving particularly low- and middle-income students, and we think that the record and the facts and figures regarding the students that have been assisted will substantiate this.

Unfortunately, we have not had the means in terms of adequate appropriations to take care of other needy students and, because of this, today we find so much pressure from deserving people who are asking for some kind of relief to help pay for their children's education.

Rather than going through all of the stated advantages and subsequent disadvantages of tuition tax credits that have already been submitted for the record, let me just say, Mr. Chairman, we are also well aware, that in a lot of the testimony that is being given on this issue, there are some very confusing facts. We would hope that somehow you would have the opportunity to sort some of this out.

I have particularly been appalled by the fact of some of the gross statements that have been made recently, not only before the Education Committee, but before the Ways and Means Committee, where things have been exaggerated.

For an example, when you look at some of the distribution patterns of the tuition tax credit benefits, such as the chart which we included in our testimony, I think you will find that actually those benefits tend to help people at higher income levels rather than at the moderate group that we would typically indicate are middle income.

I know a witness earlier today, for example, cited a previous study that was done by the American Council on Education and simply pointed out that about 75 percent of the tax credit benefits would go to families with incomes under $25,000.

That particular study which was done, Mr. Chairman, was an earlier study. Since then, the data base has been changed. As a result of that correction, that particular fact is no longer true. The revised ACE figures are now available—I am sure they would be happy to provide them to you—their new figures would also parallel the figures that currently exist in the CBO estimates.

This is the kind of confusion that has existed.

I also was amazed this morning to find someone indicate, in another panel, that students would be required to fill out a lengthy, 11-page form to apply for this kind of student aid assistance. This is not the case. In fact, if you take the existing basic grant application, you will find it is a one-page form. It does have several items on both sides of it.

It is a comprehensive form, however, in that it tries to address all students, both independent and dependent, and it does not require that all students necessarily fill out all of those items, but rather only those items that pertain to them and their families' particular circumstances. The rest of the information that is in that booklet is simply informational items to give people background on how the program works and a description of the other student aid opportunities that are available. Nevertheless this is the kind of confusion that has caused some of the problems in terms of people trying to justify one position or another on this issue.

We would say to you that with any proposal that is developed, and in particular with a student aid proposal, there are four specific points that we feel are critical.

In particular, let me highlight these for you, Mr. Chairman.

No. 1, we are very concerned that the awards we currently have to the neediest families are not being reduced at the expense of the less needy. Secondly, we are also concerned that we help families receive realistic family size offsets which more accurately estimate the true living expenditures associated with today's cost of living.

We are all aware of the impact of inflation and what has happened with increases in utilities, increases in State and local taxes as well as Federal taxes.

Third, we would hope that Federal grant dollars would be distributed in such a manner as to insure that such awards are reduced as the family's financial well-being is increased.

If you look at some of the proposals put forth, particularly the one that the administration is offering, we are dealing with some fairly large, equal benefits across broad bands of the income scale. Naturally we would favor something that would more adequately address the financial strength of the individual family so that awards to those with the greatest need would be larger and, those to families with less need, being smaller.

For this reason, we would suggest strongly that you minimize, as far as possible, the flat rate awards across broad income ranges, thus helping to preserve program equity.

We are concerned, that in the package that you have proposed, that we keep the program balance that has served us so well in the past. While we realize that there are certain approaches that have been included here, such as increases in the student loan program, and likewise, increases in the college work/study program, we would also hope that serious consideration could be given for additional funding for the SEOG program, as well as the State student incentive grant program.

We have a partnership in terms of student aid for several years that is specifically designed to assist a lot of students and each program serves different groups and populations. We would encourage you and the other member of the subcommittee to try to maintain that balance as far as you can so we are being responsive not only to all constituents from the various populations, but so that we also are being responsive to the various sectors of postsecondary education that are being served by these various programs.

We have also included in our testimony, Mr. Chairman some specific examples to show how the flat rate awards in the basic grant program might be changed and have outlined three ways that may assist you with this. One, change the assessment rates; two, change the award ceiling, by indexing the program; or three, by changing the family size offsets or by not taxing a certain part of discretionary income. With these approaches, you could change the slope of the line which exists in the administration's proposal and thus reduce the flat $250 award band.

We think that this would make it a better package, and would certainly come closer to recognizing the true needs of all families. It will also give us additional assurance that middle-income families are being well-served.

At this time, Mr. Chairman, particularly since I know that you have a full agenda today and that the House is in session, and that you have had a lot of witnesses, rather than elaborating on our proposal, I would like to give you the opportunity to ask us questions.

Mr. FORD. Thank you very much.

Before I go any further, I would like for the record, and publicly, to thank you, Mr. Martin. In your capacity as executive secretary of the National Association of Student Financial Aid Administrators, you have been like an extra staff member to this committee for a number of months as we attempted to develop what may not be the perfect plan to meet the problem of middle income students but one that, with your help and that of other people in the educational community, we hope is a rational and efficient plan for meeting this goal.

I can think of no one, frankly, in this town who has spent more time explaining and explaining the present operation of this system and how changes will affect it than you have. The considerable expertise you have demonstrated over and over again has been invaluable to us in developing a package, in presenting it to the administration and in coming as far as we have thus far.

It would not have been possible in the relatively short time available to us to present something that seems to attract the widespread approval that this proposal has attracted from the educational community and the students, as you heard earlier today, without experts like yourself to draw the road map for us. I would like to tell you that you have drawn more graphs for me on the backs of envelopes and even table covers than anyone has since I have been in Washington, and there have been times where I thought I was learning more about student assistance than any normal Congressman ought to really know.

You have been a great teacher.

Mr. **Martin**. Thank you very much, Mr. Chairman, you were an easy student. I wish everyone had the ability to grasp concepts as easily as you do and to see the merits of them.

Mr. **Ford**. When you draw me a picture. I am a Peanuts fan and that is where I study both economics and human psychology. I find Charlie Schultz can get to me faster than the other Charlie Schultz, who did not draw me pictures.

I would like to ask you how you feel. You mentioned the campus-based programs. We have had testimony on the concern that some of the people in the education community have over the fact that this legislation in its present form does not move more money into the other programs.

If we consider the constraints of working with the fixed number of dollars that we have very strong and unprecedented commitments for at this stage and the probability of not being able to get much more, would it be worthwhile to consider shifting some of the money into the program at this time?

Mr. **Martin**. Mr. Chairman, I would like to yield this question to my two colleagues and let them give you their perspective. They represent two separate types of institutions, one public, one private. This seems to be a question that is frequently raised on this issue. I would like to allow each of them to respond.

Mr. **Ford**. Someone yesterday indicated that, based solely on newspaper accounts, a spokesman for private schools indicated this was a big rip off for the public schools at the expense of the private and a spokesman for the community colleges indicated that, on the contrary, it's a big rip off for private schools and was not doing enough for the low-cost public schools.

I consider that to be the kind of reaction that indicates at least they are paying attention. We hope to make contact with them and persuade them that they both are right.

Mr. **Martin**. I would ask Mr. Fritz and Mr. Holec to comment on how they would make that recommendation.

Mr. **Fritz**. Both programs, three programs, really: college work/study, SEOG, and national direct student loans could also be included where there is a redistribution of the fixed amount of funds now being talked about.

All three programs have a specific thrust. It is almost a delicate balance of the mission they attempt to accomplish.

The SEOG program does have a larger impact with greater influence, at high cost, even a medium-cost institution's ability to assist a wider range of students with a wider range of income levels.

I happen to represent an institution in the high-cost range. Next year, our total student budget will be $7,000 just for 1 year. The SEOG grant really represents the only Federal grant that the majority of our applicants are eligible for.

Under the proposed amendment, there would be some who would get a minimum basic grant. It might go to the lower income, lower middle income. These would replace institutional dollars at the higher cost institutions.

One of the things we do have as a financial resource to offset this is our own endowed and unfunded scholarships and the degree to which SEOG or BEOG funds goes to lower income streams and through the middle-income range, the better able we are to direct institutional funds to a wider population.

We are in a position, not a very fortunate position, but we have to say no to about 50 percent of the applicants who apply for aid each year.

The average income of an applicant is $21,000 and the average income of a recipient of aid is close to that as well.

The college work/study program serves the same population of applicants and recipients, and there are some extra burdens in that program presently, particularly, I would cite the increase in minimum wage, and we are beginning a series of these increases over the coming years.

This does represent a burden. Our objective is to stretch funds to assist the largest numbers of students possible and, at the same time, meet the minimum standard. Then we are going to have to see more funds in that area.

The sum of the thrust of both programs—and I will omit, at this stage, any reference to NDSL—I think the only thing that would be proper is to evenly distribute them through the two programs: SEOG and CWS.

Mr. **Holec**. I think a balanced proposal, as presented in your proposal, between the basic programs; basic grants, guaranteed student loan, and added funds for work/study provides all three alternatives, the grant, the loan, and the employment.

Certainly, the SEOG program provides that element of choice, a choice for a student to go to a higher cost institution, to go to institutions out of State, but a choice. In some cases, access as on the part of the older student that perhaps with a family, tries to go back to get his or her education. The SEOG is necessary to meet these costs.

The SEOG program is important to institutions, and it is important to fill in the gaps of the very fixed rules of the basic grant program that cannot deal with certain situations or it can provide the element of flexibility for the institution to respond to individuals.

Work/study is a very critical program as well. Mr. Fritz already mentioned the higher wage rates and certainly they represent increases. They are significant, and it is going to cost a lot more just to fund the same students that are receiving it right now.

Hopefully we can get some additional funding in there also so we can move up, by income levels, to the students that we are not supporting under that program. Many institutions have to restrict eligibility because they do not have enough funds to take care of all students.

Putting more funds in that program would also provide some additional funds for middle-income students, so I would endorse that concept; also, that we have a balance between SEOG and work/study.

Mr. **Martin**. I just might remind the subcommittee, originally, in fiscal year 1979 Carter budget, they set an increase for college work/study to $15 million. In the additional package which has also been proposed there is an additional $150 million. Totally, we are dealing with $165 million.

If I hear my colleagues correctly, they are suggesting that we can split this amount evenly between the college work/study and SEOG so that we can keep the balance that is necessary for all concerned.

Mr. **Ford**. Mr. Buchanan?

Mr. **Buchanan**. Do you have difficulty in obtaining job slots for work/study? Could you handle a $150 or $160 million increase in terms of finding sufficient job slots? Is that a problem generally?

Mr. **Holec**. I do not believe it is. Jobs can be created. A couple of months ago we had a meeting of the Big Ten aid administrators from all kinds of institutions. All of us thought that that could realistically be handled.

You have to, first of all, build in a higher wage rate which is not going to expand the number of jobs but takes more dollars just to fund the current ones.

Many institutions could use additional funding right now and do apply for supplementals. Some of the problems are that some of the supplementals do not get out until after school is practically over, and their institution cannot use the money when it does become available.

A number of institutions would like to expand their summer employment programs for students. They are unable to do so because the funds are being used during the academic year.

I do not think there would be any significant problems. I think the institutions would desire that challenge to create more jobs, through not only the institutions but off-campus agencies as well. I know at my own institution we have been able to increase our program approximately threefold over a period of 4 or 5 years, and we have had no difficulty in creating additional jobs for students.

Mr. **Buchanan**. We had testimony earlier by Dr. Rhett that some had to turn back this money.

Mr. **Rhett**. I was saying that that was one of the reasons that aid officers in my State had given me for the deobligation and reversion of funds, of what I considered to be on a large scale.

Mr. **Buchanan**. It must be different in different places.

Mr. **Martin**. Let me comment on that, Mr. Buchanan. The college work study program has always been a little more difficult to administer in the fact that you are trying to spread the money out and estimate monthly payrolls. From an administrative standpoint, on the front end for schools, it is a little more complex to make accurate assessments and judgments in terms of expenditures than it is on your loan expenditures.

If we go back to look at the history of the program, actually, with the exception of just 1 or 2 years, the underutilization of funds in any given year has really been under 10 percent. There have been a couple of exceptions to that. There are also a couple of horror stories that occurred in certain States where there were large amounts that were refunded.

Particularly I refer back to 2 years ago when one State in particular turned back a large amount of money. On further investigation, however, we found that this came about because the State agency there had increased very substantially their State grant program and the amount of difference in terms of underutilization was nearly equal, dollar for dollar, to the amount of increase in that State's scholarship and grant program.

There are these shifts. What we are saying, in terms of the deobligation process is—having certain institutions being able to deobligate certain funds so they can be used by other institutions. While the Office of Education goes through that process it is a very slow and cumbersome process, that requires reports back from the school to the regional offices, from the regional office to here, from here, back to the regions who in turn notify people.

We lose 4 or 5 months of critical time when these dollars could be out there benefitting the students and providing opportunities for them. Time is just wasted, so consequently, at the end of the year when you add it up, it looks like the program is not being properly used, and this is not the problem of the program, it is the problem of the inefficiency of the administration to give us those funds on a timely basis.

Mr. **Buchanan**. I am aware of that problem, too.

Mr. **Holec**. If I could give you a personal experience, one of our regional campuses had been told they may receive $10,000 additional for their work/study program for this year and they were told that in January, but they do not have it yet.

They have no official award notice and they ran out of money and they had to terminate students in the program because there is no firm guarantee that they will have it.

There are two other aspects to keep in mind, too. Some of the changes that were made with this very committee with the educational amendments of 1976 dealing with the program to ease the burden a little bit from students having to terminate in the middle of the semester and allow them to continue on somewhat beyond that are going to help. We are beginning to see some of the regulations being developed on that. We are hopeful that they will be coming out shortly.

There has been some negative reaction from the employers because of this and when OE gets through their regulatory process, we will see to it that this is going to help.

Second, also, dealing with the regulations, there have been some very rigid requirements for students to save virtually all of their money that they earn while working full time during the summer. Until late this fall, students who had stayed at home had to save all but $200. Those who had to support themselves had to save all but $400 of what they had earned in the summer.

If you take an independent student who has to support himself for 3½ to 4 months in the summertime, it is pretty difficult to live on $100 a month.

As a result, we had students coming into us last year and saying, "Thank you, but no thank you." I cannot afford to take your work/study job, even if I am unemployed, because there is no way that they can save that amount of money. This also hurts significantly lower income families where students may be helping to support the family to some extent during the summer by using some of their earnings. They find it very difficult to be able to meet these requirements.

If we can get some relief from the Office of Education on this, it will help us to expand summer opportunities for students in all sorts of jobs, not just on campus but off campus, in the State and around the Nation.

Mr. MARTIN. Another point that we have made with the people at the Office of Education: Currently their regulations allow a student to borrow to replace the parental contribution that may or may not be available from a family. However, they do not allow that same student the opportunity to work and replace it with earnings, and we have felt for some time that this is a little absurd, since it is contrary to a self-help concept, that students not be allowed to work to replace that parental contribution, but are entitled to go out and take a loan.

We are hopeful through the regulatory process this year, with the changes in work/study, we may be able to finally convince them of the need for a change in this direction.

Mr. BUCHANAN. I would certainly agree with both of those points. Do you have any comment or suggestions about SSIG?

Mr. MARTIN. Mr. Buchanan, one concern that we have had with the SSIG program is recognition of the fact that in certain States, they are so far overmatched, that with new SSIG money, you may not necessarily be getting any additional State dollars. This is a problem that has concerned us. I know Mr. Rhett and his colleagues have discussed it and they are sympathetic to it.

One of the advantages when the SSIG program came into being was that it not only provided the new Federal dollar but a matching dollar from the State. There is no doubt, in our opinion, the SSIG program has been very beneficial in helping students. It certainly has been a program that certainly has directly affected a lot of middle-income students.

In many States, the awards are going to higher income students than we are able to deal with with our existing programs. We certainly support that, but hope we do not lose the matching feature so that we are, in fact, generating new dollars.

Mr. BUCHANAN. Dr. Rhett proposed a two-tiered arrangement for SSIG. For the first $75 million, retain the present base year; but above that level, use a rolling base year in order to stimulate a second generation of interest on the part of States who are now fully matched or overmatched.

Mr. Martin. That type of proposal would have a lot of merit.

Mr. Buchanan. Thank you very much. You had one gifted student in Congressman Ford. If you want to take one with learning disabilities, I could profit from an education.

Mr. Ford. I am looking for a memo on the status of SEOG which shows the distribution of the program benefits, based on the current year, *showing that 57 percent of the benefits* in SEOG now goes to income levels below $10,000; 17 percent would go on the levels from $10,000 to $15,000; only 5 percent over $15,000 and 22 percent to independent students.

Someone this morning suggested that if we draw a line on BEOGs out further then we would benefit by taking the hump that is on our graph off where we put more money in for the people between $10,000 and $15,000.

We proposed to give more BEOG money than is now available—in fact, give money that is not now available to the $10,000 to $15,000, which is using up 17 percent of SEOG's.

Assuming that we could go to $1,800 on BEOGs, the 57-percent figure, we assume, is not going to be affected adversely in terms of total money going to people with incomes below $10,000. Is it reasonable to assume that if we keep the emphasis on a slightly more than an average decline for the BEOG's for the $10,000 to $15,000 group, that that 17 percent of the total resources going to that group would shift to the above-$15,000?

Mr. Martin. Mr. Chairman, I think it is safe to say that if we expand the basic grant program, which is viewed as the floor to all the student aid programs on which we build the others, that there is obviously an effect. We should be reducing the demand for the campus-based programs from those that may be getting part of it now, so that there could be a slight shift-up into some higher income levels.

To say that we would find an immediate shift on that, I think that that would probably be a little unfair to assume that. There would probably be some shift within institutions that would reflect that.

One of the problems you may find is the distribution of funds amongst institutions, some schools would receive large increases in terms of some of these new basic grant dollars, perhaps disproportionately to their other mix. We might have to wait until the following application cycle to reallocate some of those dollars to other campuses.

In theory, if we follow past practices; yes, the dollars would shift upward, up toward the right, toward higher income families. It is assumed that the SEOG dollars would do that as well.

[Additional material submitted for inclusion in the record follows:]

National Association of Student Financial Aid Administrators,
Central Office and Placement Service,
Washington, D.C., February 21, 1978.

Mr. William D. Ford,
Chairman, Subcommittee on Postsecondary Education, U.S. House of Representatives, House Annex I, Washington, D.C.

Dear Mr. Ford: During the last few weeks a number of articles and editorials have appeared in newspapers across the country which demonstrate the widespread popular appeal of the increased student assistance alternatives to tuition tax credits as you introduced. Consequently, I would like to request that you include the articles which are enclosed in the record as an attachment to the testimony I presented on February 16 before the Subcommittee.

Thank you very much for your assistance in including this material in the record. If I or the National Association of Student Financial Aid Administrators can be of any assistance to you, please do not hesitate to call upon me.

Sincerely,

DALLAS MARTIN, *Executive Secretary.*

Enclosure.

[Dearborn Heights (Michigan) Leader, Feb. 9, 1978]

EDITORIAL OPINIONS—GOOD NEWS FOR MIDDLE INCOME STUDENTS—THANKS TO CONGRESSMAN FORD

A real breakthrough for college-minded middle class students is on the way . . . thanks to the determined efforts of Cong. William D. Ford and support from President Carter.

What will become the greatest new piece of legislation for the middle class students who wish to go to college since World War II was announced, with administration support, from the Oval Office of the White House Wednesday morning.

It will provide new financing for families in the $10,000 to $25,000 annual income range as a basis for college grants and loans . . . and should affect just about 90 percent of the eligible persons in the 15th District, including Dearborn Heights and Garden City.

By next year the bill, as researched and drawn up by Cong. Ford, should provide an additional $2 billion in educational aid funds for the middle income students who heretofore have been locked out of such help.

Carter's announced support at the Wednesday press conference indicates that the bill will receive rapid attention, with a joint hearing by members of the educational committees of the Senate and the House of Representatives which Ford heads, set for today, Feb. 9. HEW Secretary Joseph A. Califano Jr. is to testify on the advisability of the bill at this hearing and throw the administration's support behind it.

Ford explains that the bill as proposed now is extending direct grant aid above the former low-income ceiling of $10,000 to a middle income ceiling of $25,000 as well as basis for guaranteed loans up to an adjusted gross income of $45,000. He adds that in its second year the new program would provide additional help for other campus-based programs for students seeking to get a college education and hitherto locked out because of the low-income $10,000 ceiling.

"It works out that every college student up to the $25,000 ceiling would be guaranteed a flat $250 grant plus having access, which he has previously been denied, to a guaranteed student loan," he said. Ford adds that while interest on the student loans would be paid by the Federal government to the loaning financial institutions, such repayment by the student in the case would not become due until after graduation.

"We are only making it possible for the middle income families to take advantage of the grants and work study programs originally intended for low income students," Ford continued.

As proposed in Ford's bill, the program would cost $1.2 billion this year, with an additional $800 million to be added to it in 1979. Only $700 million was included in President Carter's new budget as "contingency" money for higher education. This means that the President will have to raise his $500.2 billion budget by a half-billion dollars to fund the program this year.

This proposed legislation has received wide acclamation on Capitol Hill from Congressmen whose mail from home has been running heavily in support of some aid for middle income parents with children in college. The bill essentially expands on the existing Basic Educational Opportunity Grant program which was aimed principally at providing grants and assistance to children of poor families.

[From the Detroit Free Press, Feb. 10, 1978]

TUITION AID IS WELL AIMED

The rapid rise in college costs has brought forth a number of new federal aid proposals, one or two of which are likely to win Congress' approval. The plan recommended by President Carter this week is well targeted and has a reasonable price tag. Although it may need some change, we hope it will prevail over proposals that would scatter the aid more broadly.

A key figure in developing the plan was Rep. William Ford, D-Mich., head of the House education and labor subcommittee on higher education. He said it would bring "the biggest single infusion of funding for middle-income college students since the adoption of the GI Bill at the end of World War II."

Some $3.8 billion already is being spent in scholarships and grants for individual students. The Carter plan entails an additional $1.46 billion.

But it would significantly expand the number of students eligible, recognizing that a family now may have an income of $25,000 or $40,000 and, in certain circumstances, have great difficulty with college bills.

The biggest change would be to provide grants of $250 a year for two million college students who are not now eligible for federally financed scholarships. They are from families with incomes of $16,000 to $25,000. The program of direct grants previously has been limited to families with less than $16,000 in income.

Other changes proposed by the president:

The maximum family income for the college student loan program, which guarantees repayment to banks and subsidizes the interest cost, would be extended from $30,000 to $45,000.

Additional jobs would be created for 280,000 students who work part-time. The government pays 80 percent of the salaries.

The $250 grant program would be opened to additional students of low- and middle-income families now excluded because of family assets, number of dependents and other factors.

The amounts of scholarships for students from families with incomes below $16,000 would be increased by changes in the formula applied.

These are much better approaches than the one proposed by Sen. William Roth, R-Del., which would give a $250 tax credit (that is, take $250 off taxes due) for families of college students. Sen. Roth's proposal makes no distinctions between wealthy and lower-income students.

We think it makes sense to provide much greater aid for families with less than $16,000 in income than for those in the next bracket up. But it is clear that increasing costs threaten to exclude $16,000-$25,000 families from the college market unless they get help, too. The plan also makes sense in that, although it does not provide grants for the over-$25,000 group it does make more of them eligible for loans. Care should be taken, of course, to assure repayment.

None of this enables anyone to get a free ride on the government because the amounts involved pale in comparison with college costs for most students.

Rep. Ford deserves credit for his work on this solution, as does Mr. Carter.

[From the Los Angeles Times, Feb. 12, 1978]

Easing the College Burden

President Carter has come forward with his own $1.46 billion plan for relieving the financial strain on low- and middle- income families that want to send their children to college.

We think it is a better plan than others now pending in Congress, because it would deliver federal assistance to those who need it most, and would not subsidize students from the highest-income families, as would the other proposals.

The necessity for expansion of federal aid to higher education is not in dispute. In just the past 10 years, college costs have risen 77%, and now average $2,500 a year for tuition and room and board at public institutions, and $4,800 at private institutions. The more prestigious campuses charge $7,000 or more a year.

The affluent have no difficulty meeting such expenditures, and the poor receive most of the present scholarships, grants and loans. It is the middle-income families that receive the least, and the President's plan would benefit them significantly for the first time.

At present, only students from families whose income is below $16,000 a year are eligible for scholarships. Under Carter's Middle-Income College Assistance Act, 2 million students from families in the $16,000-to-$25,000 category automatically would receive, for the first time, $250-a-year scholarship grants.

We believe that the $25,000 ceiling is too low and too arbitrary, however. It does not take into consideration either the number of children whom a family might want to send to college or other financial obligations that the family might have. We would prefer a scale that would reflect criteria other than just gross income.

But, despite that objection, Carter's plan is still the best one in the hopper. While adding 2 million students to the scholarship rolls, it would also raise funding or expand eligibility for existing forms of assistance to lower-income students. Another positive aspect is a student-work program. Carter will ask Congress for an additional $165 million to fund part-time employment for 280,000 students, with the government paying 80% of their wages.

The other plans before Congress call for a direct tax credit to the parents of college students, regardless of their income. A family with an income of $250,000 a year would receive exactly the same tax benefit as one earning $25,000.

Sens. Daniel Patrick Moynihan (D-N.Y.) and Bob Packwood (R-Ore.) are the authors of the leading proposal. It would allow a family to subtract $500 from its income-tax liability for each student in college, and would also allow a similar deduction for children in private or parochial elementary and secondary schools.

Whether the Treasury can or should subsidize private and parochial education below the college level is certain to be the subject of intense debate in Congress, but there is stronger support in both houses for the general concept of a tax credit than there is for Carter's scholarship, grant and loan plan.

The Moynihan-Packwood measure would be much more expensive. By extending tax-credit benefits to even the wealthiest families—and by including the lower levels of private and parochial education—it would cost $4.4 billion a year, three times as much as the President's plan.

Carter has said that he will not accept new forms of aid to higher education that reject family income as a criterion for eligibility. We hope that he will stand by that position. But we also hope that he will raise his own eligibility ceiling to a more appropriate level.

The President's assumption that a family with an income of $25,000 is affluent, and able to finance the college education of one more children without assistance, is simply unrealistic.

A higher, case-by-case limit is necessary. With that change, we believe that Carter's proposal actually would deliver more benefits, and more equitably, to more deserving families than would the tax-credit approach.

[From the New York Times, Feb. 13, 1978]

A BETTER TUITION AID PLAN

Congress appears determined to relieve the financial burden on middle-income families with children in college. Senator William Roth's proposal to award every college student's parents a $250 tax credit has wide support in both houses—which explains President Carter's haste in fashioning his own plan for student aid programs for the middle class. We hope Congress pauses long enough to think through this expenditure of tax dollars to pay the tuition bills of some middle-income families. If, however, election-year considerations make expanded student aid inevitable, at least the Administration plan makes better sense than the tax credit approach.

Last year, excluding G.I. Bill benefits, college students received $7 billion in direct Federal aid and indirect tax breaks. Underlying this considerable expenditure was the idea that the Government has an obligation to make college accessible to all, regardless of income. Students in families with incomes below $10,000 thus garnered over half the benefits, and those with incomes under $15,000 got most of the rest. Now advocates of additional aid argue that exploding college costs justify aid for a broad cross section of American families earning far more.

Do they have a case? The evidence is not impressive. According to the Congressional Budget Office, average family incomes rose 89 percent from 1967 to 1976—but college costs increased by only 75 percent. Families already comfortably off did even better than the average: Those in the top fifth ($24,000 plus in 1976) chalked up a 95 percent gain over the 10-year period. No one doubts that a family earning, say, $25,000 a year must make real sacrifices to put two or three kids through school. It is hard, though, to find compelling statistical support for the argument that middle-income families have more trouble paying college bills today than a decade ago.

It might be nice, of course, to ease their burden nonetheless. But money spent on student aid means less for other worthy Government programs—or higher taxes. Difficult as the students' plight may be, it hardly merits the highest priority for scarce Federal dollars. Nor is it clear that middle-income taxpayers without children in college should be asked to make additional sacrifices to send their neighbor's offspring to school.

Right or wrong, the cause of some three million insistent middle-income parents is not likely to be neglected in an election year. So it is important for Congress to understand that the Carter method of targeting funds to middle-income families is much more efficient than the tuition tax credit. The tuition tax credit would benefit all college students' families whatever their income. More than $300 million thus would go to families with incomes above $30,000, more than $12 million to families making $100,000 and up. By contrast, the President's plan would extend the existing Basic Educational Opportunity Grant system to pay $250 per student to families earning $15,000 to $25,000. The Administration acknowledges the need of some families earning $25,000 or so, but limits their benefits to modest subsidies for private bank loans.

Higher education is a virtuous activity. It is also an expensive activity, and someone—student, parent, taxpayer—must foot the bill. Since most of the benefits—status, income, personal satisfaction—accrue to the students themselves, it seems that they should bear most of the burden. We see no reason why the Government should be in the business of writing student aid checks beyond the amount required to make college accessible to those with real financial need. If Congress does choose to classify middle-income students as needy, then it should at least aim its largesse accurately.

[From the Indianapolis Star, Feb. 13, 1978]

CARTER PLAN WOULD HELP INDIANA STUDENTS

President Jimmy Carter's proposed increases in financial aid to college students would increase dramatically the number of Indiana students eligible for federal educational grants and loans.

That is the consensus of the financial aids and student loan office administrators at Indiana, Purdue and Ball State universities and the University of Notre Dame.

The Indiana scholarship and financial aids officials also said they generally prefer the package of increased federal spending on education advocated by President Carter rather then the various income-tax credits contained in bills pending in the United States Senate.

President Carter last week introduced a plan for a record $1.2 billion in new aid to college students, including $250 grants to at least two million students from middle-income families with gross incomes in the $16,000 to $25,000 range.

The Carter plan also would provide subsidized loans to students with family incomes as high as $45,000 before taxes, and expand federally subsidized work-study job programs.

Mr. Carter said more than 5 million students in the country could get federal aid when the increases take effect in the fall of 1979, which would be an increase of 2 million students receiving aid.

The financial aid officers at the Indiana universities were reluctant to make specific predictions about how many more students in this state would be eligible for aid. But the total of their estimates is at least 35,000 students from middle-income families.

Mr. Carter wants to add $1 billion to the $2.16 billion Basic Educational Opportunity Grant Program which now helps 2.2-million students primarily from low-income familes. Students in families with incomes of less then $25,000 would apply individually to the government for the grants.

The administration has claimed that the goal of the aid package is to get the money to middle- and lower-income families where it can do the most good in providing educational opportunity.

This fall, a college student from a poor family, with income of $5,000 a year and fairly average assets, would get the maximum grant of $1,600. But in the fall of 1979 when Mr. Carter's plan would be in effect, the maximum grant would raise to $1,800.

A student from "a low-middle income family" earning $12,000 would get $716 this fall, but a 50 per cent increase in the fall of 1979 with a grant of $1,030.

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A student from a family of four with income of $16,000 would get no basic grant this year because the ceiling is about $15,000. But the plan would give all students from families with income between $16,000 and $25,000 grants of at least $250 beginning in the 1979 school year.

It is in that family gross income range that the Hoosier financial aid officials said they expect to see the huge increase in the number of eligible students. But another large growth area would be in work-study jobs in which the federal government pays the major portion of a student's wages for an on-campus job.

The chief advantage of Mr. Carter's proposal is that it tends to funnel the greatest percentage of funds spent to the middle- and lower-income families, a study by the Congressional Budget Office concludes.

[From the Hartford Courant, Feb. 15, 1978]

HELP FOR THE NOT-SO-POOR

Three proposals to increase college assistance to middle-class families are competing in Congress representing a volatile mixture of politics, education and sociology. Of the three, one is generally preferable, one is clearly deficient and a third is a satisfactory compromise.

This sudden rush to soothe the middle class is prompted by Senator William V. Roth, a Delaware Republican who has pushed through the Senate a $250 tuition tax credit, which would rise to $500 in four years. Powerful House Democrats have repeatedly killed consideration of the Roth plan, until the Democrats could come up with a proposal of their own.

The Roth bill, which has sailed through the Senate on three different occasions, would provide efficient and immediate aid in paying college costs. Bureaucracy would be sidestepped by utilizing the simple mechanics of the income tax system. Besides the fact that Mr. Roth happens to be a member of the wrong political party, objections to his plan center on its cost and its scattershot approach, with credits given regardless of financial need. We have some sympathy for those objections, and suggest an income eligibility ceiling to deal with both difficulties.

A different plan offered by Senator Daniel P. Moynihan, a New York Democrat, and Robert Packwood, an Oregon Republican, is constitutionally questionable. The Packwood-Moynihan bill would expand the tax credit strategy to include private elementary and high school tuition. This desperate effort to sneak federal funds to parochial schools, a long-time goal of Mr. Moynihan, has failed court tests at the federal and state levels, and it should not be approved by Congress. The cost of such a plan would reach an estimated $4.7 billion by 1980—an extraordinary price for the general public to pay for a program designed to specifically, if indirectly, aid religious schools.

President Carter's plan, which, true to the long Southern Baptist tradition of church-state separation, includes no gifts to elementary and high schools, is a viable compromise that increases aid to the middle class, but with more restrictions than the Roth plan. Income levels for certain federal programs would be raised, loans would be more available to middle-income families, and certain low income and middle-income families would be freed from restrictions that have prevented them from receiving college aid before.

This special new $1.2 billion package has the advantage of operating under the current structure designed for distributing college aid, and still limits persons with no real need from receiving money. While we would prefer to see the Roth plan modified and approved, the President's alternative is a step toward providing much-needed college tuition assistance.

As early as 1647, colonial Massachusetts ordered every town of 100 families or more to establish schools to prepare children for college studies.

This yearning for higher education has long held a dominant place in American life. University study has evolved from primarily a theological tradition to a professional and cultural pursuit.

As with many other federal aid programs, a new tuition benefit might well encourage colleges to raise their costs to soak up the new dollars. Declining enrollments and competition from low-cost community colleges may curb the tendency somewhat. We believe the effort is more than worth the risk. The nation's best minds should be encouraged to attend schools that best meet their needs, not just their wallets.

[From the Baltimore Sun, Feb. 26, 1978]

CHURCH AND STATE AND SCHOOL

The high cost of college could cost more than money. If it used as a lever to provide tax credits to offset tuition payments for students from college to kindergarten, the cost to the principle of separation of church and state could be incalculable. The bill sponsored by Senators Bob Packwood and Daniel Patrick Moynihan that has emerged from the Senate Finance Committee would subsidize parents who send their children to church-related elementary and secondary schools. And as such, it would batter the First Amendment provision stating "that Congress shall make no law respecting the establishment of religion."

In recent years, the Supreme Court has guardedly permitted the use of public funds to provide school lunches, medical services, bus transportation and, in some instances, even books and instructional equipment for private school pupils. This is on the theory that pupils attending private schools, 95 per cent of which are sectarian, are entitled to benefits that do not have the primary effect of advancing religion. The court has been even more flexible in permitting state aid to serve secular educational purposes in church-connected colleges. But at no time has it endorsed a quantum jump to tuition tax credits for private primary and secondary schools; indeed, in the court's 1973 *Nyquist* decision rejecting a New York statute it said such aid would have the effect of giving financial support to sectarian institutions.

We feel attention should be focused on the church-state issues lest it be obscured by the popular clamor for relief from burgeoning college expenses. In each of the last three years, the Senate has approved Senator William Roth's tuition tax credit proposal for college students only. Despite objections based on cost and tax policy, the idea has continued to pick up steam. That is why advocates of aid to private elementary and secondary schools are trying to ride piggyback on the college tuition credits. It is also why the administration has responded by urging expansion of student loan and grant programs.

The administration approach might be less expensive. It would retain need as a factor in determining aid to college students. Its grants and loans, when required, could be of a greater magnitude than across-the-board tuition tax credits of up to $500 a year. Though expanding bureaucracy, it would not threaten public schools or the Constitution.

HEW Secretary Joseph Califano has rightly warned that the Packwood-Moynihan provisions for tuition grants at the elementary and secondary level would be "a devastating blow to public school education in this country." Consider these figures: federal aid to the public schools now amounts to between $125 and $145 per student (the numbers vary); the Packwood-Moynihan bill, in contrast, would provide what amounts to a $500 federal subsidy to each child sent to a private institution, secular or religious. Thus, Washington would be promoting a dual school system by giving four times as much aid to the private school child as to the public school child. It also would be encouraging the formation of more private schools dedicated to various kinds of exclusivity—religious, racial, economic, neighborhood, etc.

There have been suggestions, most of them facetious, that if Packwood-Moynihan were really enacted, some public school systems would be better off to declare themselves private and charge tuition rates equal to the tax credits. And why not? They would still remain competitive with private institutions that predictably will raise tuition rates by amounts commensurate with tax credit levels.

Mr. FORD. Thank you very much.

Without objection, the prepared statement presented to the committee will be inserted in the record and you may proceed.

STATEMENT OF JOEL PACKER, NATIONAL STUDENT LOBBY

Mr. PACKER. My name is Joel Packer. I am legislative director of the National Student Lobby. This statement is presented on behalf of the National Student Lobby and the United States National Student Association.

NSL is a 7-year-old coalition of student governments from throughout the country which focuses mostly on the area of student financial aid. While NSA is in its 31st year of continuous operation, and also a coalition of student governments. Both organizations represent both public and private student governments as well as State and systemwide student associations.

I am delighted to be here today to be able to express our support for H.R. 10854, the Middle Income Student Assistance Act of 1978 [MISAA]. After years of fighting with the administration and the Congress not only over increases in the Office of Education programs of student aid, but to prevent programs like SEOG from being totally eliminated, it is a welcome change to appear here to discuss how we might best provide substantial increases in these programs.

I must applaud you, Chairman Ford and the other sponsors of your bill, as well as the President, for his support, and Senators Pell, Williams, Javits, and Stafford for their sponsorship of the College Opportunity Act of 1978, which would provide substantial increases in the basic grant program.

In recent years, the themes of our annual conferences have focused on the lack of resources available to college students, and the general low priority that the Federal Government places on education. "$1,800 or Fight," "We Want More Than Crumbs," and "More Than Peanuts" were the slogans of our recent conferences. It seems at last that we may actually be receiving more than peanuts.

The basic question today seems not to be whether or not more Federal aid for college students from low- and middle-income students is needed, but rather what form such aid should take; a tax credit for tuition or an expansion of student aid programs. NSL and NSA have always opposed tax credits as an inefficient, ineffective, and inequitable form of assistance.

Before I outline our specific reactions to MISAA, let me just mention for the record a few facts relating to the effect of college costs on enrollments, in order to fully illustrate the need for increased assistance, such as that in MISAA.

Costs and income levels are a factor in college enrollments. Looking at college participation rates, that is the number of high school graduates going directly on to any college, the American Association of State Colleges and Universities has pointed out that this rate is correlated with the level of tuition. Thus, in California, with tuition very low in public institutions, about 75 percent of all high school graduates went on to college, while in such States as Maine and Vermont, with very high tuition, the participation rate is only about 35 percent. And if direct proof is needed of the effects of college costs increases on enrollment, one need only look at the tragic case of the City University of New York where after the imposition of tuition, an effective cost increase of almost $800 in 1 year, 50,000 fewer students attended the university, a decrease of 20 percent.

A survey performed for the First National City Bank in 1975 found that 12.5 percent of all Americans indicated that someone in their family had been prevented from going to college in the last 5 or 6 years because of cost. The same study showed that 60 percent of families experienced hardship in meeting college costs, with half of those reporting "extreme" hardship.

Information from the Bureau of Labor Statistics shows that in autumn 1974, a family of four with an income of $14,333—the BLS intermediate level—after meeting all taxes and necessary living expenses such as food, housing, clothing, and medical care, would have only $662 left over for all "miscellaneous consumption" which includes education. Obviously not enough to afford a college education.

NSA and NSL wish to point out that while the need exists for providing aid to middle-income families, the needs of the lower-income student must not be forgotten. Large increases in their awards are desperately needed to keep pace with inflation and increased college costs. For instance, under the supplemental educational opportunity grant program, data from the Office of Education shows that the average award per recipient has declined from $528 in 1970 to $524 in 1977. In this period it fluctuated from $505 to $570.

Regarding basic grants, though the President has called for full funding of the program at the maximum award level of $1,800, this is only an increase of 29 percent over the $1,400 maximum in 1973–74, while the CPI increased over 50 percent. According to a high ranking Office of Education official, an award of $2,200 would be necessary to keep pace with inflation.

And though the student aid programs have helped enormously in expanding access for lower-income students, the fact remains as the attached chart from ACE shows, that those from incomes over $25,000 are enrolled at almost twice the rate of those from families with incomes under $5,000. At private universities there is almost a fourfold difference.

One last piece of data is relevant. The attached chart from the Higher Education Research Institute, shows that for fall 1975, net price of college, which is total expenses minus the sum of grant aid and family resources has been roughly equalized for all levels of college costs, for all families up to $20,000 income. But, unless aid is increased for the lower incomes and extended into the middle incomes, this net price barrier will become increasingly insurmountable as college costs continue to skyrocket.

While we are in basic agreement with MISAA, we do have several reservations regarding specific details. As you know, the package called for by the President would increase appropriations for student aid by $1.46 billion in fiscal year 1979. The bulk of this increase, $1 billion will go to expand basic grant eligibility by raising the maximum award to $1,800, increasing the family size offsets, and guaranteeing a $250 grant to everyone with incomes from $16,000 to $25,000. In addition, current inequities in the treatment of independent students, particularly those with their own dependents would be removed.

The rest of the funds would go to increase the work-study program to $500 million, which is the maximum allowed under current authorization in fiscal year 1979, and to raise the ceiling for eligibility for the interest subsidy in the guaranteed student loan program from $25,000 to $40,000 adjusted income.

The specific changes we advocate are:

(A) An increase in the funding for SEOG. An additional $130 million, which would bring the total appropriation to $400 million is necessary here. This would provide about 260,000 new awards assuming that average awards stay the same. The need for increased SEOG can be seen by looking at the Office of Education regional review panels approved request level.

In fiscal year 1977, this amounted to $600 million. SEOG awards are particularly helpful to private colleges where due to their higher expenses, even an $1,800 grant from BEOG falls far short of even meeting tuition charges.

I note that the Ford bill does mandate an increase to $450 million in SEOG in fiscal year 1980. I see no reason why this cannot be done in fiscal year 1979, which due to the forward funded nature of the program, will not be spent until academic year 1979–80.

SEOG's provide flexibility, because even under the greatly expanded basic grant program, due to its uniform formula procedure, some individuals will be unfairly denied aid. SEOG, granted by the campus financial aid officer, can help alleviate such a problem from occuring.

(B) Increase the funding for State student incentive grants (SSIG). An additional $50 million above the fiscal year 1978 level of $63 million should be approved. This will result in approximately an additional 200,000 awards being granted in this program, which is a State-administered program, with the Federal share providing 50 percent of the funds, and the States the other half.

This has been an extremely successful and effective program, and currently reaches more middle-income students than either SEOG or basic grants. It is also one of the simpler Federal programs to administer.

(C) Do not change the character of basic grants by guaranteeing a flat $250 grant to all those between $16,000 and $250,000 income. This type of change detracts from the need-based nature of the program. In addition, it creates other serious problems, if the program is not fully funded.

Normally all awards are reduced by a percentage, with the largest awards, for the lowest income group, receiving the smallest percentage reduction. Under the Ford bill, these $250 grants would not be reduced at less than full funding, because of the language guaranteeing the $250.

This creates a situation whereby a lower income person, from less than $16,000 would be penalized at less than full funding, while the upper-income persons in the program would not. This is certainly contrary to the progressive nature of the program. This could be changed if the $16,000 to $25,000 income group were brought into the program either by further increasing the family size offsets, or by decreasing the taxation rates on discretionary net income, as Senator Pell has proposed, or some combination of the two.

This would not only prevent the problem in regard to reductions, it would also maintain the concept that awards should be proportional to need. At minimum, language should be added to insure that these $250 awards are also subject to reduction at less than full funding.

Another concern we have is the problem of achieving further increases in the maximum award above the $1,800 level. As noted earlier, an award of $2,200 is needed to maintain the value of awards in proportion to cost. We strongly support increasing the statutory limit on awards to $2,200, and providing sufficient funds for this change.

In addition, the maximum award level should be tied to an inflation or cost-of-college index. President Carter, during the campaign, in an interview with NSL stated that he "was in favor of an inflation index." This should be done as part of the reauthorization in 1979. It is my understanding that part of the administration's reason for choosing to go with the $250 guarantee, is to keep the cost of raising the maximum within a reasonable range.

Under the Ford/Carter plan, every $100 increase in the maximum award would cost $100 million, while if the rates were lowered on taxation of discretionary income to bring in all persons up to $25,000 income, the amount required for a $100 increase would be closer to $400 to $500 million. It is vital that the expansion of BEOG does not make future increases in the maximum award prohibitive, or lower income persons will be unfairly penalized.

Another issue regarding basic grants is the current half-cost limitation. NSA/NSL believe this arbitrary rationing device should be repealed. While this might not be dealt with now, it should certainly be considered during this reauthorization.

One last point I want to make concerns the institutional allowances for basic grants. Authorized at the level of $10 per BEOG recipient, these allowances are supposed to be used by institutions to offset administrative costs and to provide consumer information to students. The administration is recommending $9.5 million for these allowances, which is approximately $4 per recipient. If the allowances are eventually fully funded and there are 5.3 million BEOG recipients, then $53 million would be funneled into this program, which in our opinion is ill defined. Attached to my statement is a short paper from the National Student Educational Fund outlining why these allowances should not be funded until details on which specific programs would be paid for from this new program are agreed upon. I urge this committee to give serious consideration to this issue.

In closing, Mr. Chairman, while we have certain disagreements over some of the details of your proposal, we are in basic agreement with it. I urge this committee to quickly report this bill, with the amendments we have outlined. I hope the information we have presented here is helpful to you.

[The prepared statement and attached materials of Joel Packer follow:]

STATEMENT OF JOEL PACKER, LEGISLATIVE DIRECTOR, NATIONAL STUDENT LOBBY

Chairman Ford and members of the Postsecondary Education Subcommittee, my name is Joel Packer and I am Legislative Director of the National Student Lobby (NSL). This statement is presented on behalf of NSL, and the United States National Student Association (NSA). NSL is a seven-year old coalition of student governments from throughout the country which has concentrated its efforts on lobbying on those issues which affect students in their capacity as students, primarily on financial aid. NSA, also a coalition of student governments, is now in its 31st year of continuous operation. Both organizations have as members both public and private institututions of higher education, as well as state and system-wide student associations. Collectively, our combined membership is approximately two million college students.

I am delighted to be able to express NSA's and NSL's support for H.R. 10854, the Middle Income Student Assistance Act of 1978 (MISAA). After years of fighting with the Administration and the Congress not only over increases in the Office of Education (OE) programs of student aid, but to prevent programs like SEOG from being totally eliminated, it is a welcome change to appear here to discuss how we might best provide substantial increases in these programs.

I must applaud you Chairman Ford and the other sponsors of your bill, as well as the President for his support, and Senators Pell, Williams, Javits, and Stafford for their sponsorship of the College Opportunity Act of 1978, which would provide substantial increases in the Basic Grant program.

In recent years the themes of our annual conferences have focused on the lack of resources available to college students, and the general low priority that the federal government places on education. "$1800 or Fight", "We Want More Than Crumbs", and "More Than Peanuts" were the slogans of our recent conferences. It seems at last that we may actually be receiving more than peanuts. The basic question today seems not to be whether or not more federal aid for college students from low- and middle-income students is needed, but rather what form such aid should take; a tax credit for tuition or an expansion of student aid programs. NSL and NSA have always opposed tax credits as an inefficient, ineffective, and inequitable form of assistance.

Before I outline our specific reactions to MISAA, let me just mention for the record a few facts relating to the effect of college costs on enrollments, in order to fully illustrate the need for increased assistance, such as that in MISAA.

Costs and income levels are a factor in college enrollments. Looking at college participation rates, that is the number of high school graduates going directly on to any college, the American Association of State Colleges and Universities has pointed out that this rate is correlated with the level of tuition. Thus, in California, with tuition very low in public institutions, about 75% of all high school graduates went on to college, while in such states as Maine and Vermont, with very high tuition, the participation rate is only about 35%. And if direct proof is needed of the effects of college costs increases on enrollment, one need only look at the tragic case of the City University of New York, where after the imposition of tuition, an effective cost increase of almost $800 in one year, 50,000 fewer students attended the University, a decrease of 20%.

A survey performed for the First National City Bank in 1975 found that 12.5% of all Americans indicated that someone in their family had been prevented from going to college in the last five or six years because of cost. The same study showed that 60% of families experienced hardship in meeting college costs, with half of those reporting "extreme" hardship.

Information from the Bureau of Labor Statistics shows that in autumn 1974, a family of four with an income of $14,333 (the BLS intermediate level), after meeting all taxes and necessary living costs such as food, housing clothing, and medical care, would have only $662 left over for all "miscellaneous consumption" which includes education. Obviously not enough to afford a college education.

NSA and NSL wish to point out that while the need exists for providing aid to middle-income families, the needs of the lower-income student must not be forgotten. Large increase in their awards are desparately needed to keep pace with inflation and increased college costs. For instance, under the Supplemental Educational Opportunity Grant (SEOG) program, data from OE shows that the average award per recipient has declined from $528 in 1970 to $524 in 1977. In this period it fluctuated from $505 to $570. Regarding Basic Grants, though the President has called for full funding of the program at the maximum award level of $1800, this is only an increase of 29% over the $1400 maximum in 1973-74, while the CPI increased over 50%. According to a high ranking OE official, an award of $2200 would be necessary to keep pace with inflation.

And though the student aid programs have helped enormously in expanding access for lower-income students, the fact remains, as the attached chart from ACE shows, that those from incomes over $25,000 are enrolled at almost twice the rate of those from families with incomes under $5,000. At private universities there is almost a four-fold difference.

One last piece of data is relevant. The attached chart from the Higher Education Research Institute, shows that for fall 1975, net price of college, which is total expenses minus the sum of grant aid and family resources has been roughly equalized for all levels of college costs, for all families up to $20,000 income. But, unless aid is increased for the lower-incomes and extended into the middle-incomes, this net price barrier will become increasingly insurmountable as college costs continue to skyrocket.

While we are in basic agreement with MISAA, we do have several reservations regarding specific details. As you know, the package called for by the President would increase appropriations for student aid by $1.46 billion in FY 79. The bulk of this increase, $1 billion will go to expand Basic Grant eligibility by raising the maximum award to $1800, increasing the family size offsets, and guaranteeing a $250 grant to everyone with incomes from $16,000 to $25,000. In addition, current inequities in the treatment of independent students, particularly those with their own dependents would be removed. The rest of the funds would go to increase the Work-Study program to $600 million, which is the maximum allowed under current authorization in FY

79, and to raise the ceiling for eligibility for the interest subsidy in the Guaranteed Student Loan program from $25,000 to $40,ooo adjusted income.

The specific changes we advocate are:

A) INCREASE THE FUNDING FOR SEOG

An additional $130 million, which would bring the total appropriation to $400 million is necessary here. This would provide about 260,000 new awards assuming that average awards stay the same. The need for increased SEOG can be seen by looking at the OE regional review panels approved request level. In FY 77, this amounted to $600 million. SEOG awards are particularly helpful to private colleges, where due to their higher expenses, even an $1800 grant from BEOG falls far short of even meeting tuition charges. I note that the Ford bill does mandate an increase to $450 million in SEOG in FY 80. I see no reason why this cannot be done in FY 79, which due to the forward funded nature of the program, will not be spent until academic year 1979-80. SEOG's provide flexibility, because even under the greatly expanded Basic Grant program, due to its uniform formula procedure, some individuals will be unfairly denied aid. SEOG, granted by the campus financial aid officer, can help alleviate such a problem from occuring.

B) INCREASE THE FUNDING FOR STATE STUDENT INCENTIVE GRANTS (SSIG)

An additional $50 million above the FY 78 level of $63 million should be approved. This will result in approximately an additional 200,000 awards being granted in this program, which is a state administered program, with the Federal share providing 50% of the funds, and the States the other half. This has been an extremely successful and effective program, and currently reaches more middle-income students than either SEOG or Basic Grants. It is also one of the simpler Federal programs to administer.

C) DO NOT CHANGE THE CHARACTER OF BASIC GRANTS BY GUARANTEEING A FLAT $250 GRANT TO ALL THOSE BETWEEN $16,000 and $25,000 INCOME.

This type of change detracts from the need-based nature of the program. In addition, it creates other serious problems, if the program is not fully-funded. Normally all awards are reduced by a percentage, with the largest awards, for the lowest-income group, receiving the smallest percentage reduction. Under the Ford bill, these $250 grants would not be reduced at less than full funding, because of the language guaranteeing the $250. This creates a situation whereby a lower-income person, from less than $16,000 would be penalized at less than full-funding, while the upper-income persons in the program would not. This is certainly contrary to the progressive nature of the program. This could be changed if the $16,000 to $25,000 income group were brought into the program either by further increasing the family size offsets , or by decreasing the taxation rates on discretionary net income, as Senator Pell has proposed, or some combination of the two. This would not only prevent the problem in regard to reductions, it would also maintain the concept that awards should be proportional to need. At minimum, language should be added to ensure that these $250 awards are also subject to reduction at less than full-funding.

Another concern we have is the problem of acheiving further increase in the maximum award above the $1800 level. As noted earlier, an award of $2200 is needed to maintain the value of awards in proportion to cost. We strongly support increasing the statutory limit on awards to $2200, and providing sufficient funds for this change. In addition the maximum award level should be tied to an inflation or cost-of-college index. President Carter, during the campaign, in an interview with NSL stated that he"was in favor of an inflation index." This should be done as part of the reauthorization in 1979. It is my understanding that part of the Administration's reason for choosing to go with the$250 guarantee , is to keep the cost of raising the maximum within a reasonable range. Under the Ford/Carter plan, every $100 increase in the maximum award would cost $100 million, while if the rates were lowered on taxation of discretionary income to bring in all persons up to $25,000 income, the amount required for a $100 increase would be closer to $400 to $500 million. It is vital that the expansion of BEOG does not make future increases in the maximum award prohibitive, or the lower-income persons will be unfairly penalized.

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One last point I want to make concerns the institutional allowances for Basic Grants. Authorized at the level of $10 per BEOG recipient, these allowances are supposed to be used by institutions to offset administrative costs, and to provide consumer information to students. The Administration is recommending $9.5 million for these allowances, which is approximately $4 per recipient. If the allowances are eventually fully-funded and there are 5.3 million BEOG recipients, then $53 million would be funneled into this program, which in our opinion is ill-defined. Attached to my statement is a short paper from the National Student Educational Fund (NSEF) outlining why these allowances should not be funded until details on which specific programs would be paid for from this new money. I urge this committee to give serious consideration to this issue.

In closing Mr. Chairman, while we have certain disagreements over some of the details of your proposal, we are in basic agreeement with it. I urge this Committee to quickly report this bill, with the amendments we have outlined. I hope the information we have presented here is helpful to you.

EDUCATION PARTICIPATION RATES OF DEPENDENT STUDENTS BY FAMILY INCOME AND CONTROL OF INSTITUTION
1975-76

Enrolled in College	total	Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000-$19,999	$20,000-$24,999	$25,000 and over
		Family Income					
Total							
Full-time	43.7%[b]	30.6%	33.9%	38.4%	46.6%	46.9%	63.2%
Part-time	5.2	4.4	4.7	5.4	4.8	6.7	5.2
Total	48.9	35.0	38.6	43.8	51.4	53.6	68.4
Public							
Full-time	33.3%	26.0%	26.8%	30.0%	36.3%	36.4%	44.1%
Part-time	4.5	3.8	3.9	4.9	4.4	5.3	4.8
Total	37.8	29.8	30.7	34.9	40.7	41.7	48.9
Private							
Full-time	10.4%	4.6%	7.1%	8.4%	10.3%	10.5%	19.1%
Part-time	.7	.6	.8	.5	.4	1.4	.4
Total	11.1	5.2	7.9	8.9	10.7	11.9	19.5

Note: Calculations are based on all dependent family members aged 18 to 24 years minus those enrolled below college, those who have completed four or more years of college, and those who are high school dropouts.

[b] Of those people 18-24 years old who were high school graduates, 43.7% were enrolled on a full-time basis in college.

Source: Policy Analysis Service, American Council on Education based on U.S. Bureau of the Census data.

APPENDIX 8

Percentages and Amount of Total College Costs From Family Contribution and Nonreturnable Grant Aid Sources by Parental Income and Institutional Cost for First-time, Full-time Students in Fall 1975 and Calculated Net Price

Parental Income

Institutional Cost[1]	$0-6,000		$6,001-10,000		$10,001-15,000		$15,001-20,000		$20,001-30,000		$30,001 or more		Total	
	% TC	Amount	% TC	Amount	% TC	Amount	% TC	Amount	% TC	Amount	% TC	Amount	% TC	Amount
Inst. Cost = $0-1,399														
Total Cost[2]	100	$2,123	100	$2,163	100	$2,164	100	$2,296	100	$2,527	100	$2,938	100	$2,353
Grant Aid[3]	50.8	1,078	38.6	835	20.6	446	11.6	267	7.0	176	4.2	124	18.3	430
Family Resources[4]	23.4	496	32.6	699	49.2	1,055	59.4	1,362	70.5	1,781	80.9	2,377	56.3	1,325
% Grant Aid + Fam. Res.	74.1	1,574	71.1	1,534	69.8	1,501	71.0	1,629	77.4	1,957	85.1	2,501	74.6	1,755
Net Price[5]	25.9	549	28.9	619	30.6	663	29.0	665	22.6	570	14.9	437	25.4	598
Inst. Cost = $1,391-2,099														
Total Cost	100	3,335	100	3,444	100	3,582	100	3,627	100	3,774	100	3,960	100	3,646
Grant Aid	53.3	1,779	44.7	1,540	31.5	1,128	21.9	796	10.9	410	4.7	188	24.4	889
Family Resources	16.9	566	22.6	763	34.0	1,217	44.6	1,618	60.9	2,300	82.0	3,247	47.1	1,718
% Grant Aid + Fam. Res.	70.3	2,345	67.3	2,303	65.5	2,345	66.6	2,414	71.8	2,710	86.7	3,435	71.5	2,607
Net Price	29.7	990	33.1	1,141	34.5	1,237	33.4	1,213	28.2	1,064	13.3	525	28.5	1,039
Inst. Cost = $2,091-2,700														
Total Cost	100	4,153	100	4,168	100	4,253	100	4,285	100	4,425	100	4,697	100	4,416
Grant Aid	51.0	2,118	45.2	1,885	32.4	1,377	23.1	990	13.8	611	3.3	150	21.1	930
Family Resources	20.6	849	25.1	1,045	36.8	1,567	48.0	2,019	66.4	2,938	86.1	4,046	55.2	2,437
% Grant Aid + Fam. Res.	71.6	2,967	70.3	2,930	69.2	2,944	71.1	3,009	80.2	3,549	89.3	4,196	76.3	3,367
Net Price	28.6	1,186	29.7	1,238	30.8	1,309	28.9	1,276	19.8	876	10.7	501	23.7	1,049
Inst. Cost = $2,701-3,000														
Total Cost	100	4,424	100	4,471	100	4,595	100	4,668	100	5,097	100	5,130	100	4,933
Grant Aid	48.4	2,141	40.7	1,821	31.7	1,456	23.8	1,111	13.6	695	3.6	184	17.0	837
Family Resources	23.5	1,041	26.7	1,192	38.5	1,767	48.2	2,250	66.1	3,368	86.7	4,450	63.2	3,118
% Grant Aid + Fam. Res.	71.9	3,182	67.4	3,013	70.1	3,223	72.0	3,361	79.7	4,063	90.3	4,634	80.1	3,955
Net Price	28.1	1,242	32.6	1,458	29.9	1,372	28.0	1,307	20.3	1,034	9.7	496	19.9	978
Inst. Cost = $3,001-4,000														
Total Cost	100	4,959	100	5,029	100	5,212	100	5,395	100	5,535	100	5,333	100	5,325
Grant Aid	52.2	2,589	47.6	2,396	36.6	1,906	27.3	1,473	13.7	756	3.6	196	18.1	964
Family Resources	17.8	883	21.4	1,074	35.0	1,824	43.7	2,356	63.6	3,523	85.6	4,561	61.8	3,290
% Grant Aid + Fam. Res.	70.0	3,472	69.0	3,470	71.6	3,730	71.0	3,829	77.3	4,279	89.2	4,757	80.0	4,254
Net Price	30.0	1,487	31.0	1,559	28.4	1,482	29.0	1,566	22.7	1,256	10.8	576	20.0	1,071
All Institutional Cost														
Total Cost	100	2,369	100	2,414	100	2,459	100	2,617	100	2,932	100	3,521	100	2,735
Grant Aid	50.9	1,205	39.9	962	23.6	580	14.8	388	8.7	253	4.0	141	18.8	513
Family Resources	22.1	525	30.4	733	45.3	1,113	55.8	1,459	68.6	2,010	82.9	2,920	55.8	1,526
% Grant Aid + Fam. Res.	73.0	1,730	70.3	1,695	68.9	1,693	70.6	1,847	77.3	2,263	86.9	3,061	74.6	2,039
Net Price	27.0	639	29.8	719	31.1	766	29.4	770	22.7	669	13.1	460	25.4	696

Footnotes:

[1] Institutional Cost is tuition and fees from HEGIS.
[2] Total is the sum of all student expenses. All amounts listed are in dollars.
[3] Grant aid is composed of BEOG, SEOG, State aid, school and private scholarships, Veterans benefits, and social security dependents benefits.
[4] Family resources are the sum of parents' contribution, spouse's contribution, and savings.
[5] Net price is total expenses minus the sum of grant aid and family resources.

Source: Preliminary tabulations from studies on the Impact of Student Financial Aid, Higher Education Research Institute, Los Angeles, Calif. Office of Planning, Budgeting and Evaluation Contract 300-75-0382.

Feb. 1977
National Student Educational Fund

Student Amendments to Higher Education Act of 1965

--to be accomplished thru Office of Education action in 1978
--to be accomplished thru "technical amendments" in 1978
--to be accomplished thru "substantive amendments" in 1979-80

Background Reading: (1) Testimony of Layton Olson to House Postsecondary Education Subcommittee, June 1977 on "better information" and "accountability" for students and prospective students; (2) Working Papers and Recommendations of Student-Commissioner Conference (December 1977) on Federal Financial Aid Programs.

1. Student Information Allowances to postsecondary institutions

Principles: (1) the allowances must be earmarked for specific services so that institutions, students, and outside parties (such as OE, state agencies, legislators, the public) know that Federal money "makes a difference" in the quality of information and financial aid services; (2) the allowances must be "spendable" by the financial aid administrator (in consultation with financial aid committee and chief executive officer) for visible and additional services, and not simply deducted by the chief executive officer from the insitutional budget of the aid office; (3) allowances should be seen as a "less expensive alternative" to extensive Regional Office program review (program officers, auditors, inspector general's staff, etc) which normally is very expensive and which normally involves only problems of gross negligence and which normally has no direct relation to the quality of financial aid information or services provided; (4) allowances should encourage the development of new "quality control" services about student information and student financial aid services; and (5) allowances should not be so large or so unspecific as to force the Office of Education to make the aid officer a virtual employee of the Federal Government in order to secure the appropriate accountability for the spending of Federal allowances.

Proposal: The GSL and BEOG allowances should not be funded until institutional, financial aid administator, student, state agency, and Office of Education agencyrepresentatives are able to come up with an appropriate "earmarking" of allowances. Unless these parties are not able to develop appropriate "earmakking", it is not appropriate for Congress to directly legislate how the allowances shall be spent. A proposed earmarking:

$4 to pay for financial aid form processing, including the provision of a report to the filigg student and to the postsecondary institution. The institution could select to contract with any approved financial aid processor. This would replace the "processing fee" currently charged to students, which is a financial, administrative and psychological barrier to access to and choice among postsecondary education institutions.

$4 to pay for filling out 2 documents which will provide better information about the institution's cost, financial aid, academic program, drop-out profile in common formats understandable to students and their families. Document No. 1 is the Statement of Cost and

Financial Aid Practices (similar to a form designed by institutional financial aid administrators in 1975-76 in a project on "better information" conducted by the College Entrance Examination Board as an alternative to a "government-imposed" format" as has been mandated by the Federal Trade Commission in similar circumstances). This document could be filled out through private financial aid processing agencies, rather than by the Office of Education Document No. 2 is the Institution Report Form designed under contract from the U.S. Office of Education in 1975-76 by the American Institutes for Research to identify the 14 Areas of Potential Consumer Abuse by an institution, in which an understanding both by the institution and by the potential student is important in avoiding major mistakes by both. The method for collection of this information is less clear, as it may be collected by OE, by state agencies or by other groups, in order to ensure the comparability of information between schools.

$2 to pay for "quality control" services about "student information and financial aid services" provided by the institution, in order to assist the institution determine if (and how) its student consumer information is being understood, and the good aspects and bad aspects of the running of the financial aid services in the financial aid office. Such information is vital to assisting the school in making priorities for providing better information and services based on direct feedback of persons applying for financial aid. The "quality control service" might send a form to 20-30 percent of the students applying for financial aid in order to find out their level of understanding of the system and what problems they had. Such a service would be an excellent low-cost systematic check on the way the system is working. Such services might be offered by private financial aid processing groups or by the institution itself, with the expectation that the group which "processes" financial aid applications in the first place should not also "evaluate" the services. Such quality control services are not only important for students, but become a "service spot-audit" for program reviewers coming to the campus, and become a valuable source of information at the state and national level (in the aggregate) to identify where the biggest "successes and problems" are in student information and student financial aid services.

$10 total per student. Although the price for each service might vary, the total cost would approximate $10 per student in Basic Grants or Guaranteed Student Loan Programs. Hopefully, there will not be substantial duplication of participation.

4 percent for Campus-based Programs should continue as "free money" to the institution to be used as designated by the financial aid administrator. Since many aid administrators do not have access to these funds, OE should require the documentation of its use for student information in reference to the above standards for BOEG and GSL, and require consultation with a campus fin. aid committee. This will assist the aid officer control the funds.

Cited in the Higher Education Daily article below is An example of the cost to the Federal Government, to the postsecondary institution in time, money and headaches for failure to set up appropriate financial aid management practices.

Such costs focus only on bookkeeping, which may or may not improve services to students. As the article states, about the only thing the audit will do is catch major fraud.

Thus, the failure to set up "positive quality control of information and financial aid services to students" has left a vacuum to be filled up by auditors. Auditors job is to save the Federal government money, rather than setting up a system which is responsive to students.

This kind of action should be held off until it can be integrated into an overall plan to oversee the activities and financial management of student aid offices.

Page 5 HIGHER EDUCATION DAILY February 14, 1978

STUDENT AID PROGRAMS TO BE AUDITED EVERY TWO YEARS

By Oct. 1, HEW's Audit Agency plans to be auditing institutions participating in student aid programs once every two years. Now, only about 30 percent of the colleges and universities using federal student assistance programs are audited biennially, according to a report by the HEW Inspector General.

University accounting and reporting of federal contracts and grants has "become an area of increasing concern to the federal officials and to the universities themselves," said the Inpector General's report for the quarter that ended Dec. 31, 1977. Last year universities did not "properly" account for $420 million of $1.2 billion in federal contract and grant money, according to the report.

The report said a major auditing reform program is being developed and will include simpler regulations that maintain safeguards; improved procedures for quick resolution of audit findings; early audit review service for schools proposing changes in accounting systems; and sanctions against institutions and individuals when corrective actions are not taken within a "reasonable time period."

Crackdown The auditing improvements are part of a general crackdown on student aid fraud and abuse that included a recent cross-check on federal employee rolls that found 6,783 federal workers in default on student loans (HED, Feb. 10).

The Inspector General's Office, created in 1976 as a watchdog over federal money, along with the Bureau of Student Financial Assistance, plans to continue "operation cross-check" in consort with HEW's Bureau of Student Financial Assistance. The two offices also plan to conduct a study to determine the type of institutions that are "high risk" for student aid fraud and abuse. --DS

Mr. **Ford.** Thank you very much.

I think it is no secret around town that, with the aid of a lot of people, including your organization, we attempted to put together a package that would reach middle-income students without surrendering the existing support for low-income students. For example, there was not, in our original idea of what the President's legislation ought to be, a drop at the $15,000 level or $16,000 level, down to the $250 grant. That happened when we tried to get the proposal past the Office of Management and Budget and we were forced into a tradeoff.

The indications are—and this is unprecedented—when the President announces in advance that he is going to take money far beyond what he had in his budget and commit himself to the immediate expenditure of that money, we are constrained to introduce his version of the legislation in hopes that we can show good faith and get the money more quickly and virtually guarantee that amount of money.

If one stays within the $1.4 billion figure, when you start working on the BEOG grants with a graph like the one before us, what you are treating is the difference between the higher grant for the student under $15,000, the student who is already eligible, and the additional students who would be eligible for more money for the over $15,000.

The legislation actually contemplates that we would do that in the second year by stretching it out. You have heard some discussion here today. The estimates are that it would cost approximately another $800 million to continue at the rate that we established for the BEOG grant all the way to the $25,000 income.

Mr. Quie has suggested the possibility of reverting to a 14-percent tax rate across the board. We did a run on the computer using 16 percent instead of the 20 to 30 percent which produces the dropoff for us, and the effect of that is to add a substantial amount of cost to BEOG's and leaves nothing for the other programs.

The problem in trying to extend beyond the $16,000 above $250 is the people below the $16,000 level. The administration's version of a better way to make a tradeoff was to try to keep the grants for the income levels below $16,000 as high as possible with the amount of dollars available and then drop off with the promise of something for the future, with respect to people over $16,000.

So you look at the graph and see what this proposal would do to the present program. You see that it actually creates the biggest increase in expenditure of money when related to a student between the $10,000 and $15,000 figures. We will have to consider whether or not that is a good tradeoff. Should we reduce that and move into more money for over $16,000 incomes in BEOG, or should be maintain it and increase the money past $16,000 at the expense of other programs in the package?

I am sure we are going to have to negotiate that out before we end up with a piece of legislation. It is very much my personal concern that we try to keep faith with the commitment that we have from the administration for new money and stay within the overall dollar amounts. We presume we are setting the stage for the ultimate which would be to take the present BEOG program at the $1,800 authorization and extend it out to $25,000 income levels and let the chips fall where they may.

With respect to the family contribution, we also tried an adjustment in that. We talked about moving away from Orshansky into the Bureau of Labor Standards figures and we were quite surprised. All of our hunches about how bad the Orshansky formula is proven when you make a computer run on what happens to shifts, without using the Bureau of Labor Standards figures, because it costs an awful lot of money to do.

The very fact that it costs money is clear proof of how irrational and arbitrary the present system is. The BLS figures got lost in the trading process in favor of trying to get as much money as possible spread across these programs.

We would appreciate your specific suggestions about where the priorities of the tradeoff ought to be. We would be happy to have you work with the staff so they can explain fully what the alternatives are. We have a number of computer runs already showing what happens to all of the lines on the graph if you juggle parts of the package, particularly with respect to BEOG's.

Senator Pell feels very strongly about the approach he is taking. We will probably wind up with something that looks more like his proposal than ours.

Mr. PACKER. I also would agree that something between the two probably would be the best. There are some conflicting values of the cost of the total proposal as well as the point we raised in terms of possible future increases, the maximum award if everyone is brought in by the lowering of taxation rates to increase the maximum award. With a $100 increase under Senator Pell's proposal, it would cost $500 million. Under the administration proposal, a $100 increase would cost about $100 million because they are only, in effect, dealing with the under $16,000 for that.

So there are a lot of conflicting issues, as you said. Our basic priorities would be that whatever is done, it should not create additional pressures to make it prohibitive to give a further increase in the maximum award. As I said, even the $1,800 maximum award is, in effect, worth less than the $1,400 award several years ago. We would hate to see an expansion of the program prevent the maximum award from going up for many, many years in the future which, in effect, is decreasing everybody.

That is one of our top concerns.

Another concern, as I said in my testimony, is that at less than full funding, which we hope never happens again, we hope that we can keep that entitlement nature of the basic grants program. If we do receive less than full funding, everybody's award, no matter how they are in the program, is reduced somewhat. That burden of the less-than-full funding is spread over anybody and not just the under $16,000 income persons.

At a minimum, we would support language that would include a reduction aspect of the $250 guarantee awards. Currently, if the program is less than fully funded, a minimum award of $200 is dropped to $50, which, in a lot of cases, $50 is rather meaningless. But again, that burden should be spread with everybody.

I strongly agree with your comments, that we do not want to place additional burdens on the lower-income students.

Mr. FORD. We discussed a half-cost provision with representatives of several institutions. We were surprised at the controversy, how readily that group of institutions, which you would think most likely would want to stay with the half cost, were willing to go to 70 percent. That, again, was a computer run, and it almost set the computer on fire when we ran it through. Then we dropped down to 60, and that is what we submitted to OMB, and their computer started sputtering, and so we got back to where we are.

I think everyone recognizes that an adjustment is necessary. It is one of the ways in which a judgment can be made that provides more equity for the overall package of student assistant programs.

Mr. PACKER. I would like to read for the record a quote from the Carnegie Council on Higher Education. Their report concluded:

> The half-cost limitation is discriminatory. Low-income students frequently only have one feasible option for post-secondary education: attendance at a nearby low-cost institution. With the present limitation the BEOG grants make it impossible to cover noninstructional costs that may make their only practical choice between not attending at all or attending on a part-time basis while working.

Again, the point we are making is that, in effect, the Government is saying, if we cannot give you enough to go to a private school we are not going to give you enough to go to any school. So, in effect, that is preventing people from going to school.

Talking about access and choice, I think that access is the first criteria. We certainly support private schools. A lot of our membership, a lot of our members and board of directors are from private institutions. That is why we are strongly supporting increasing the SEOG award, but the half cost is an artificial way of forcing people into choice or preventing access actually.

Mr. FORD. Mr. Buchanan?

Mr. BUCHANAN. Thank you, Mr. Chairman. I have no questions.

Mr. FORD. Thank you very much.

The committee will recess now until 9:30 a.m. next Wednesday for further testimony on legislation before us.

[Thereupon, at 12:45 p.m. the committee recessed to reconvene Wednesday, February 22, 1978.]

MIDDLE INCOME STUDENT ASSISTANCE ACT

WEDNESDAY, FEBRUARY 22, 1978

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 2261, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Biaggi, Mottl, Cornell, Buchanan, and Quie.

Staff present: Thomas R. Jolly, subcommittee counsel; William Gaul, committee associate general counsel; Patricia F. Rissler, clerk/legislative associate; and Christopher T. Cross, minority staff assistant.

Mr. Ford. The Subcommittee on Postsecondary Education is meeting again today to hear further testimony on the Middle Income Student Assistance Act, which is basically the administration's proposal to help hard-pressed middle-income families achieve the goal of a higher education for their children.

At earlier hearings we have heard from college and university presidents, student organizations, student financial aid administrators, and State postsecondary education officials, as well as from the Secretary of HEW on behalf of the administration during the joint hearing with the Senate.

We will conclude the hearings on this legislation tomorrow with the appearance of the Commissioner of Education and representatives of the College Entrance Examination Board, the American Bankers Association, and a representative of the Suburban Caucus in the House.

This morning we have with us Mrs. Margaret Gordon of the Carnegie Council on Policy Studies in Higher Education. Following her will be the executive vice president of Fordham University, Dr. Paul Reiss. Father James Finlay, president of Fordham is not able to be here as scheduled. The Fordham testimony is at the request of Mr. Biaggi, a member of the committee. And our final witness this morning will be Dr. B. A. Forrester, president of Enterprise State Junior College in Alabama, who will be appearing at the request of the ranking minority member of the committee, Mr. Buchanan, and Congressman Dickenson. Mr. Buchanan has been delayed on his way here but he will be here momentarily.

We will proceed first with Margaret Gordon.

Mr. Mottl. Mr. Chairman, is it the Chair's idea to have markup, then, next Tuesday?

Mr. Ford. It will be next week.

Without objection the prepared statement presented by Margaret Gordon will be included in full in the record at this point, and you may proceed to add to it, or highlight it, as you find most convenient.

[The statement of Margaret Gordon follows:]

STATEMENT BY MARGARET S. GORDON, ASSOCIATE DIRECTOR, CARNEGIE COUNCIL ON POLICY STUDIES IN HIGHER EDUCATION

Mr. Chairman and Members of the Subcommittee:

It is a privilege and pleasure to accept the chairman's invitation to discuss the President's recent proposals for expansion of aid to students enrolled in higher education. As members of this Subcommittee know, the Carnegie Council and its predecessor, the Carnegie Commission, have had a continuing interest in the evolution of student aid policies over the last decade, and we have had the very great satisfaction of seeing some of our proposals, at least in their major outlines if not in fine details, adopted. Our major emphasis, as you know, has been on need-based student aid as the primary form of federal aid to higher educaiton (apart from support of research), on the grounds that the federal government has a special responsibility to encourage equality of opportunity and that student aid, as contrasted with institutional aid, encourages student choice and does not involve the government in interference with institutional autonomy.

I should add that the Carnegie Council is not a spokesman for higher education. We are concerned with issues in higher education and express opinions about those issues, but we do not speak for higher education in the sense that the various associations representing institutions of higher education do.

In discussing the recent Administration proposals, I should make it clear that the Carnegie Council has not had an opportunity to discuss those proposals, which were made public very recently. However, the proposals can be evaluated in relation to the various recommendations that have been made by the Council in recent years, and this is what I propose to do. Moreover, I have discussed my comments on the proposals with Clark Kerr, Chairman of the Carnegie Council, and have his concurrence in what I intend to say.

The most recent relevant reports of the Carnegie Council are The Federal Role in Postsecondary Education (1975) and The States and Private Higher Education (1977). We are also preparing a new report which will take a broad look at progress in the development of student aid since the early 1960s and will include recommendations aimed both at greater equity and greater simplicity in what has come to be a complex and poorly articulated set of provisions.

Let me emphasize at the outset that the Administration proposals, in their main thrust, are consistent with the Council's policy positions on student aid and have our support. This is particularly the case since they come at a time when tuition tax credit proposals have been receiving serious consideration in the Congress. We are opposed to the adoption of tuition tax credits without careful consideration of their relationship to the entire existing array of student aid provisions and in advance of the careful review of student aid which we believe should be undertaken by Congress before the present legislation expires in 1979.

We also believe that tuition tax credits tend to be inconsistent with the basic principles and philosophy that should underlie student aid policies, as Clark Kerr made clear recently in a letter to Senator Russell Long, Chairman of the Senate Finance Committee, copies of which were sent to members of the relevant congressional committees:

1. Tuition tax credits benefit parents of college students without regard to need, and, depending on their precise provisions, tend to be regressive, aiding middle- and upper-income families more than those with low incomes. In fact, it has been estimated that under the Roth bill (S311) which calls for deduction of student grant aid from any tax credit, 70 percent of the benefits would probably go to families with $18,000 or more in income.

2. Largely because tuition tax credits are indiscriminate with respect to need, they are exceedingly costly to the U. S. Treasury in relation to the amount of tuition relief provided to any individual family, compared with student aid measures that are targeted to the needy.

3. Because the amount of relief provided is modest, especially in relation to the tuition burden of parents with children attending private colleges and universities, there is a very great danger that, once the legislative door is open to this type of aid, Congress will be subject to pressure to increase the amounts of relief provided in the future, with very greatly increased costs to the Treasury.

4. Moreover, it seems highly likely that many institutions will raise their tuition by the amount of any tax credit provided, thereby ensuring that the federal benefits will flow either to state governments in the case of most public institutions or to private institutions, rather than to the parents of students. The danger that this will occur is far greater then in the case of need-based student aid, because institutions are inhibited from raising their tuition as a response to the availability of student need-based grants, for fear of discouraging enrollment by students who do not benefit from the aid. In the case of tuition tax credits, however, the benefits flow in the first instance to the very families that must pay full tuition, and thus the incentive for the institution to raise tuition by the amount of the tax credit is very strong.

5. It is, of course, the parents whose children attend private institutions that are most heavily burdened by tuition costs, and yet tuition tax credits are an exceedingly inefficient way of aiding private institutions, because a very large proportion of the benefits will flow in the first instance to the far more numerous families whose children attend public institutions.

On the issue of tuition tax credits at the elementary and secondary level, which are provided in the Packwood-Moynihan bill (S 2142), our Council, of course, has no position, because its terms of reference relate to higher education.

Now let us consider more closely the President's recent proposals.

Basic Educational Opportunity Grants

The Carnegie Council welcomes the liberalization of family income eligibility conditions and the increase in the maximum grant that are provided for in the Administration proposals. In *The Federal Role in Postsecondary Education*, the Council recommended that eligibility conditions should gradually be liberalized, but only as appropriations increase sufficiently to permit such liberalization without penalizing students in the family income-range in which students are currently eligible. Appropriations have increased in a most satisfactory manner--from $660 million in 1974-75 (when our report was being prepared) to $2.1 billion in the fiscal 1978 budget, to which the President's proposals would now add $1 billion for fiscal 1979. In our judgment, based on cost estimates that we have made in the past, family income eligibility conditions can now be relaxed somewhat without impairing the adequacy of aid available for students from low-income families.

We have serious reservations, however, about the proposal for a uniform grant of $250 to students from families in the $16,000 to $25,000 income bracket, for the following reasons:

1. This provision departs from the principle of family contributions proportional to income. The departure may seen rather modest, but it poses a danger for the future very similar to that posed by tuition tax credits. Especially in relation to costs of attendance at a private institution, $250 is a very modest contribution. There would almost certainly be strong pressure in the future to increase the amount of this uniform grant and to raise the upper limit of family income to which it applied.

2. In the light of the principles expressed by the Carnegie Council in the past, we question the desirability of extending grant aid (as opposed to work-study or loan aid) to families as high in the income distribution as those affected by this provision. In 1975, the latest year for which relevant data have been published, 87 percent of families with children aged 18 to 24 had incomes under $25,000. Median income of such families in that year was about $13,000. In the past, we have suggested that "a student from a family in the lowest income quartile should ordinarily receive the maximum grant, that about one-half of the maximum grant should be the average amount received by a student in the second lowest quartile, and that some grants would be made under unusual family circumstances to students from families in the lower part of the upper half of the income range" (*The Federal Role . . .*, p. 24). In view of the large increase in student aid available to students from low-income families since we made that statement, we would now be inclined to suggest that some grant aid be made available to students from families in the lower two-thirds of the income distribution, but this would certainly not extend to families with incomes of $25,000 (unless there were special circumstances, such as more than two dependent children). Family incomes have risen since 1975, but an income of $25,000 would continue to be in the top fourth of income of families with college-age children.

3. There would be a strong inducement for institutions to raise tuition by $250 if this provision were adopted--the situation would be very similar to that resulting from a tuition tax credit of the same amount.

We believe that there are more desirable and equitable ways than the $250 flat grant of extending grant aid to families with incomes somewhat above the median. Senator Pell has proposed one approach--reducing the percentage of the maximum grant that would have to be contributed by the family.

Another approach that we have urged is a very substantial increase in federal appropriations for the State Student Incentive Grant (SSIG) program. This approach has the advantage of stretching the impact of federal student aid dollars by providing an incentive for states to increase their student aid appropriations. In the years from 1972-73 to 1976-77, federal appropriations for the SSIG program increased from zero to $44.0 million. During those same years, state appropriations for need-based undergraduate scholarships rose from $315.5 million to $601.4 million (not including the federal contribution). Thus, the increase in state appropriations was nearly 7 times the rise in federal appropriations. Probably not all of the increase in state funds can be attributed to federal matching grants, since there have been strong political pressures toward increases in state scholarship funds in many states even without the federal incentive, but there is no question that the SSIG program has had a decided impact--and this despite the fact that some of the large states--especially California, Illinois, New York, and Pennsylvania--already had sizable state scholarship programs in effect at the time the federal SSIG program was adopted.

We have linked our proposal for substantially expanded SSIG appropriations to a recommendation that the federal BEOG program be structured to meet students' needs for noninstructional costs and that the chief means of meeting needs for instructional costs would be through state student aid programs. There are two main reasons for this suggestion: (1) noninstructional costs are more uniform from state to state than tuition costs and thus lend themselves more readily to national standards of student aid; and (2) tuition levels in public higher education are determined at the state level, and thus state scholarship programs can be more readily adapated to differing tuition levels between public and private institutions than can a national program.

One of the most interesting results of a survey we conducted in connection with our work on The State and Private Higher Education was that, among students in private institutions of higher education receiving some form of student aid, the percentage from families with incomes of $18,000 and over tended to be significantly higher in states with substantial state scholarship programs (or other forms of aid to private higher education) than in states with minimal state scholarship programs. Quite evidently, this result was attributable, not so much to a tendency for state scholarship programs to provide aid to students with families in this upper income group, but rather to the fact that sizable state scholarship programs made it possible for private institutions to reserve some of their own institutional student aid funds to assist promising students from families that would not qualify for public student aid.

Although we favor changes in the federal SSIG provisions--especially changes designed to minimize inequities from state to state and to increase the inducement for states to provide for portability of student grants--the point to be stressed in the present context is that state scholarship programs are playing a significant role--probably primarily through their indirect effects--in providing some student aid to upper-middle-income students.

We believe, also, that the Supplementary Educational Opportunity Grants (SEOG) program can play a significant role in this respect. Although our previous reports have recommended a partial phasing out of the SEOG program, on the ground that it has been found to operate in an inequitable manner, we are currently considering recommendations designed to transform it into a program which would enable student aid officers to structure packages of student aid that would meet the needs of students in unusual circumstances, and this might well include some students from middle-income families.

Before leaving the BEOG proposals, I should add that we have serious reservations about the wisdom of increasing the family size offset for a single independent student with an income of $4,200 or less from $1,200 to $3,400. This would have the effect of making a very large proportion of independent students eligible for grants, since a student who depends on part-time earnings is unlikely to have an income much above $3,400. Granted that there are independent students, especially in age brackets above the usual age of college attendance, who are genuinely cut off from any prospect of support from their parents and who are in need of this type of liberalization of the family size offset, we have to face the fact that the proportion of students declaring themselves independent has tended to increase significantly and now accounts for more than 40 percent of BEOG applicants. Would not this large increase in the family size offset for single independent students greatly enhance the incentive for students to declare themselves independent, even though they might have to wait a year before satisfying the requirements for establishing independent status (such as not having lived at their parents' home more than a minimal length of time, not having been declared a dependent on the parents' income tax return, etc.)? And, if the trend toward an increase in the proportion of independent students did turn out to accelerate, would not the cost of the proposed liberalization of BEOG provisions turn out to exceed the Administration's estimate of one billion dollars by a substantial amount? We believe that this is a possibility that should be seriously considered.

The College Work-Study Proposals

We are heartily in accord with the President's proposal to increase the appropriation for the College Work-Study program and to liberalize the family income eligibility conditions in such a way as to allocate two-thirds of the increase of $165 million in expenditures to students from families with incomes above $16,000. In The Federal Role ... (p. 42) we recommended a gradual increase in the appropriations for the program from the $300 million made available in 1974-75 to approximately $700 million (in constant 1974 dollars) by 1979-80. The total sum of $600 million that would be allocated under the President's proposals in 1978-79 would represent very substantial progress in the direction we suggest (even though $600 million in 1978 dollars are equivalent to only about $470 million in 1974 dollars).

We also recommended that family income eligibility conditions should gradually be eliminated in this program, but "only as appropriations increase sufficiently to permit such liberalization without penalizing students in the family income range now eligible for College Work-Study jobs." We believe that that condition has now been met, at least if one considers the increased availability of all types of student aid for low-income students.

The Guaranteed Student Loan Proposals

The Guaranteed Student Loan Proposals raise more difficult issues, especially when scrutinized in relation to the critical views we have expressed about the status of federal student loan programs in the past.

Briefly, we believe that "there is no aspect of student assistance that is in greater need of major legislative restructuring than the provisions relating to student loans" (The Federal Role . . ., p. 43). Granted that such restructuring is a problem for the 1979 Education Amendments and would not be appropriate in a set of proposals designed for temporary application in 1978-79, I find it difficult to comment on the President's loan proposals without some reference to our criticisms of existing student loan provisions.

In criticizing these provisions, we have emphasized: (1) a basic problem of inequality of opportunity in a program in which private lenders are likely to be influenced by the credit standing of the student's family, (2) the difficulty of ensuring student access to loans in a tight money market, even when bankers receive a "special allowance" when the prevailing interest rate goes above 7 percent (the rate subject to subsidy), (3) the lack of incentives for banks and other lenders to pursue adequate collection procedures when loans are guaranteed by the federal government, (4) the growing default rate, even though one should be careful not to exaggerate the pervasiveness of defaults and to recognize that certain proprietary schools have been major culprits, (5) a basic question as to whether interest subsidies, as opposed to deferral of interest during periods of enrollment, are appropriate, (6) the disadvantages of a 10-year repayment period for many college graduates, who tend to have relatively low incomes in the first few years after college compared with the higher incomes they reach after 10 to 15 years in the labor force, and (7) the inequities associated with the retention of an anachronistic interest rate of 3 percent in the Direct Student Loan program compared with 7 percent in the GSL program.

We have consistently recommended the establishment of a National Student Loan Bank (NSLB) as a replacement for existing student loan programs. I have been somewhat puzzled by the fact that Congress has apparently ignored this recommendation, but I am told by some of my Washington friends who follow congressional matters closely that this may be because there is a tendency to assume that our NSLB is modeled after the Economic Opportunity Bank (EOB) proposals originally put forward by Zacharias and others. The fact is that our NSLB proposal is quite different from EOB proposals in that repayment obligations are not proportional to income under our proposal, and therefore our proposal does not involve redistribution of income. Furthermore, our proposal does not at all imply full-cost tuition in public higher education, as EOB proposals tend to do.

Under our proposal, repayments would be proportional to income in any given year, but the total repayment obligation for every borrower would equal the amount of his borrowings plus interest. Those with relatively high incomes would be able to repay their loans in a comparatively short period of time, whereas borrowers with lower incomes would take longer. The average repayment period would be about 20 years.

The National Student Loan Bank would be a nonprofit private corporation chartered by the federal government and financed by the sale of governmentally guaranteed securities. The interest rate charged the student would be set at a level that was adequate to permit the Bank to obtain the funds and to cover the cost of cancellation in the event of death or severe permanent disability of the borrower. Interest payments would be deferred until after graduation (or completion of graduate study, military service, etc.) but would not be subsidized, and there would be no needs test.

There is a case for an interest subsidy in a loan program that is designed to aid low-income students, but we do not believe that there is a case for an interest subsidy in a loan program that is geared primarily to the needs of middle- and upper-income students and to graduate and professional students. The more adequate the availability of grant and work-study aid for low-income students, the less they are likely to have to borrow and the more a government loan program is likely to be relied on chiefly by students from middle- and upper-income families whose parents find it difficult to provide fully for college expenses. The current Administration proposals, taken as a total package, have the effect of reducing the need for loans by students in low- to lower-middle-income groups, but also of extending the availability of subsidized loans to students practically regardless of family income. I say practically regardless of family income, because the interest subsidies would be extended to students from families with incomes up to $45,000 (compared with the present ceiling of $30,000). In 1975, only 6 to 7 percent of families with heads aged 45 to 54 (the age range which would tend to include most parents of college students) had incomes above $45,000.

Thus, we question whether the privilege of receiving subsidized loans should be extended to students from families as high in the income range as "up to $45,000," even though we recognize that, in practice, banks are reluctant to make loans to students who are not eligible for the subsidy, because the administrative cost of collection of interest from such students is high.

There is the additional consideration that, especially in a tight money market, banks that could make subsidized loans to students from upper-income families would tend to favor such students as borrowers over students from low-income and disadvantaged families. This type of inequity is inherent in the program, in any event, as we have already suggested, but it could well be exacerbated by bringing upper-income students into the program on a subsidized basis. The danger might be offset, however, depending on developments in the money market, by the attractiveness of the added 0.5 percent to the special allowance that we understand is part of the President's proposal.

Conclusion

In conclusion, let me recapitulate by urging the approval of liberalizations of the BEOG and College Work-Study programs along the general lines of the President's proposals. I would urge both Congress and the Administration, however, to look with careful scrutiny and skepticism--and with a view to alternative possibilities--at (1) the flat $250 BEOG grant, (2) the large increase in the family size offset for the single independent student, and (3) the extension of subsidized loans under the GSL program to families with incomes up to $45,000. The scrutiny is highly likely in any event, because both the flat $250 grant and the GSL subsidy provisions would require changes in existing legislation.

Let me add that, although we favor liberalization of the family income eligibility conditions for BEOGs and College Work-Study aid, as well as other changes designed to extend student grant aid to students from families with incomes somewhat above the median family income, we are not inclined to accept what appears to be a widespread view that the middle class is in the throes of a crisis in relation to college costs. To indicate some of our reasons for skepticism about this popular impression, I am appending two charts which show changes in college costs in universities and other four-year colleges, public and private, from 1970-71 to 1976-77, in relation to changes in the consumer price index and per capita disposable income. The charts show that the cost of board and room has gone up considerably less than the consumer price index and much less than per capita disposable income. Tuition has increased at about the same rate as the consumer price index, except in public four-year colleges, where its rate of increase has been relatively high (this may in part reflect the abandonment of free tuition at the City University of New York). The critical test, of course, is what has happened to tuition and board and room combined. The increases in this combined measure have been somewhat less than those in the consumer price index, except in public four-year colleges, and considerably less than per capita disposable income in all four types of institutions represented.

Moreover, a recent report of the Congressional Budget Office, with which members of this committee are probably familiar, shows that, if tax expenditures are taken into account, 32.5 percent of the total (dollar) benefits of student aid flows to students with adjusted gross family income of $10,000 to $20,000 and no less than 38.2 percent goes to those from families with incomes of $20,000 or more.* The same report (p. 9) shows enrollment rates in higher education declined somewhat after 1969 for all income groups, but considerably more sharply for students from families with incomes of $25,575 or more--who could best afford increased college costs--than from middle- or lower-income families. On the basis of our own analyses of enrollment trends, we believe that the decline in enrollment rates after 1969, which showed up among males primarily, was largely attributable to the change in the draft situation, and perhaps to some extent to the less favorable job market for college graduates, rather than to increased costs.

All of this does not mean, of course, that some middle-income families --perhaps because of special circumstances--are not hurting, but it fails to support an allegation of students from middle-income families being priced out of higher education on an intolerable scale.

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*Congressional Budget Office. Federal Aid to Postsecondary Students: Tax Allowances and Alternative Subsidies. Washington, D.C., 1978, p. 6.

Chart 1 Comparative increases of tuition, tuition and board and room, board and room, consumer price index and per capita disposable personal income, 1970-71 to 1976-77, for universities

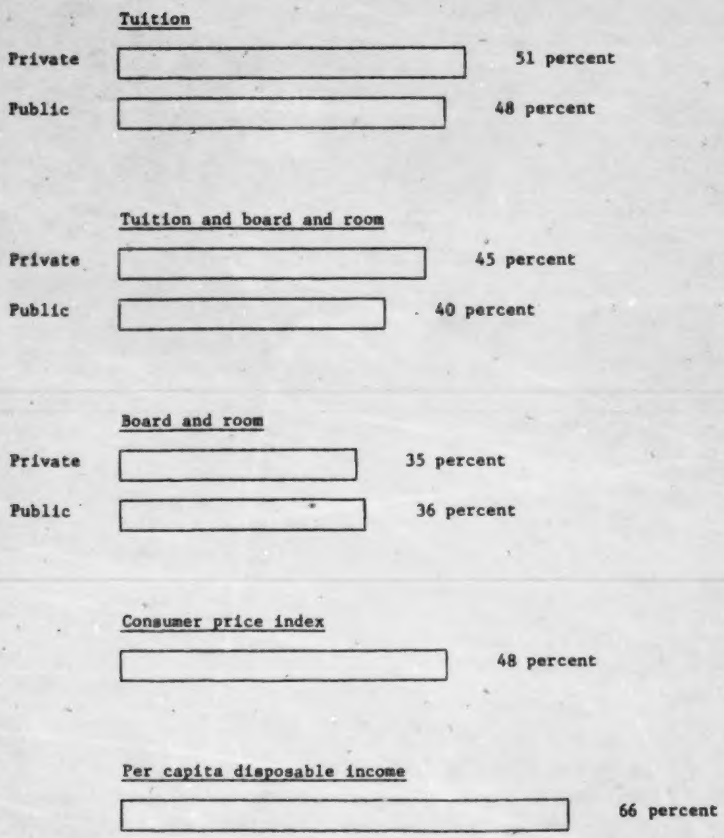
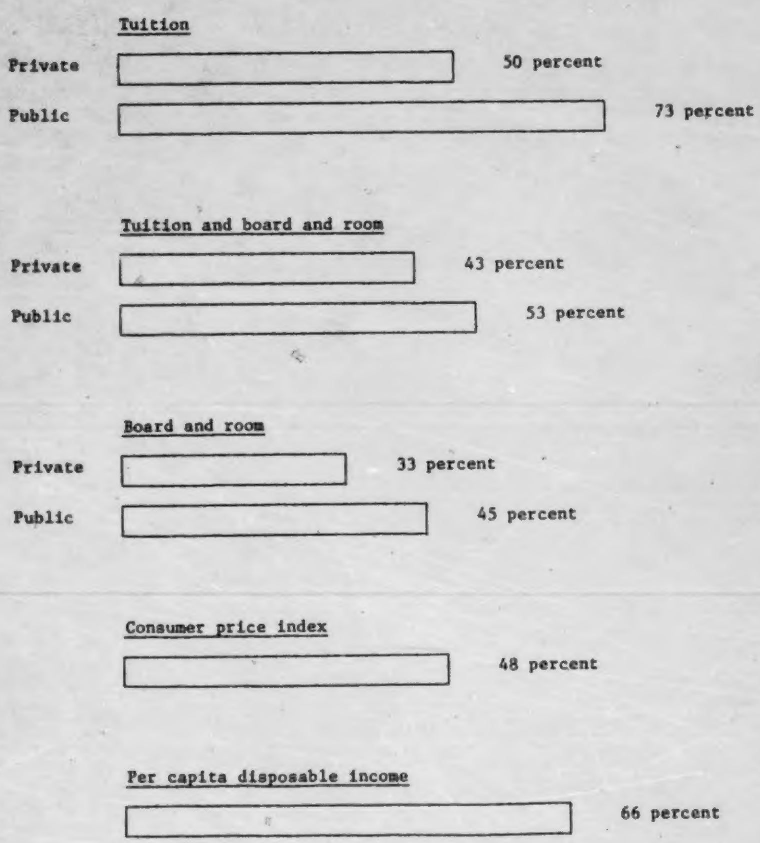


Chart 2 Comparative increases of tuition, tuition and board and room, board and room, consumer price index and per capita disposable personal income, 1970-71 to 1976-77, for four-year colleges other than universities



STATEMENT OF MARGARET GORDON, CARNEGIE COUNCIL ON POLICY STUDIES IN HIGHER EDUCATION

Mrs. GORDON. Mr. Chairman, it is a great pleasure to be here to present the views of the Carnegie Council on Higher Education.

I think that members of the subcommittee are familiar with the work of both the Carnegie Commission and the Carnegie Council, particularly as it relates to Federal aid to higher education. As I think you know, the Carnegie Commission very early took the position that the primary form of Federal aid to higher education should be need-based student aid; and it took this position esssentially on two grounds. One, that the Federal Government has a special responsibility for equality of opportunity, especially in view of the differences in income among the States; and second, that making student aid the primary form of Federal aid to higher education would preserve the principle of student choice and protect institutions against interference with their autonomy, which we think might very well be the result of institutional aid. I am sure you all know that institutional aid was being supported by many of the associations in higher education before the 1972 amendments to the Education Act.

I think that the Carnegie Commission position on this was influential, and we have had great satisfaction from the knowledge that the Carnegie Commission's role before the 1972 amendments was probably significant, especially in relation to the adoption of the basic educational opportunity grant program. May I say also, before I get on to the issues before us today, that the Carnegie Council is not a spokesman for higher education. We speak about issues in higher education, but we do not represent higher education, as do the various associations that are centered in One DuPont Circle.

Let me say also that I did not receive H.R. 10854 before I left Californa. It arrived in my office yesterday, after the long weekend, while I was on my way east. I have not really had a chance to study it, although, clearly, it embodies the Carter administration proposals, which I have seen in the form of various media reports.

I might also say that the Carnegie Council has not had an opportunity to discuss the President's proposals because there has not been a meeting since those proposals were made, but my reactions are going to be based on positions that the Carnegie Council has taken in the past, and particularly in two reports, "The Federal Role in Post-secondary Education," which was published in 1975, and "The States and Private Higher Education," which was published in 1977. I have also given Clark Kerr a copy of my testimony—Clark Kerr being the chairman of the council—and he agrees with it.

In general we agree with the President's proposals as they are embodied in the bill introduced by Representative Ford, which I have had a chance to glance at quickly this morning. We concur, particularly, since these proposals are presented at a time when tax credits are being seriously considered by the Congress. We have a substantial record of opposition to tuition tax credits. In the very first Carnegie Commission report, "Quality and Equality," which took positions on Federal aid to higher education, there was a statement in opposition to tuition tax credits as representing a regressive form of aid to students in higher education.

This position was spelled out further in the recent report on "The States and Private Higher Education."

Now, let me go into our reasons for this for a moment, because I think they are very important in relation to the position that Congress will ultimately take on the President's proposals and Chairman Ford's proposals. We think that serious consideration of tuition tax credits by Congress at this point and without due consideration to the relation of such a measure to all existing student aid provisions is premature, particularly in view of the fact that in 1979 the higher education provisions will be subject to review and careful study by Congress, and revision. But, we have more specific reasons for opposing tuition tax credits.

First of all, tuition tax credits are not related to need, they come to the family regardless of need.

Second, depending on the details of the provisions—and there are differences, as you all know, between, let us say, the Roth bill and the Packwood-Moynihan bill—such aid to higher education tends to be regressive in its impact. It has been—and I think on substantial authority—estimated that 70 percent of the benefits under the Roth bill, for example, would go to families with incomes of $18,000 or more.

A second very major objection is that tuition tax credits are exceedingly costly in relation to the amount of benefit provided. This is perhaps not so bad in the first instance, but when you consider that a tuition tax credit of $250 would not go very far toward tuition in the more elite institutions these days, which is now up in the $4,000 range, it is very easy to see that once the legislative door is open to that type of provision, there would be enormous pressure to increase the amount of benefit provided in the future; and the cost to the Treasury would then begin to run into many billions of dollars.

Furthermore, it seems quite clear that institutions would be likely to raise their tuition by the amount of the tuition tax credit. Now, this temptation is not so important when we are dealing with need-based student aid because an institution always has to think of the impact of a tuition increase on those students who are not benefiting from student aid, and whose families in general pay full tuition. With this type of provision, however, there would be a real temptation for the institution to raise tuition; and in the case of public institutions, then, the benefits would flow in large part to State governments; and in the case of private institutions to those institutions' general financial position.

Another very important objection, it seems to me, in view of the fact that there is grave concern these days about the survival of private higher education in a period when institutions are expecting declining enrollment, this type of approach is a very inefficient way to aid private higher education because the major portion of the funds will flow to the far more numerous families whose children attend public institutions of higher education.

So much for tuition tax credits. Now I come to the President's proposals, as I have been able to interpret them from accounts in the press, primarily.

We strongly agree with the main thrust of these proposals. In the Federal role in postsecondary education we recommended gradual liberalization of the family income eligibility requirements for basic education opportunity grants, but only as the funds appropriated became adequate for substantial aid to low-income students. I think the time has arrived, based on cost estimates that we have made in the past, when the basic educational opportunity grant funds are adequate for the needs of low-income students, and therefore those students would not be penalized substantially by a relaxation of the family income eligibility conditions. Very much the same comment applies to the relaxation of the eligibility conditions under the college work study program, which we also have recommended in the past. In fact, we think that the college work study program is one in which ultimately no needs test might be required, or, that is, no needs test might be appropriate.

However, we have strong reservations about three features of the President's proposals, as embodied in H.R. 10854. Those reservations apply to the flat minimum grant of $250 to students from families with incomes from $16,000 to $25,000; to the very substantial increase in the family size offset for single independent students; and to providing subsidized loans for students with family incomes up to $40,000. I take it from the wording of this bill that this means adjusted gross family income of $40,000.

Mr. FORD. That is correct.

Mrs. GORDON. The figure reported in the press was $45,000, which I take it, is unadjusted income.

Mr. FORD. The figure reported in the press is based on earlier testimony of the administration when they were talking about the theoretical model family of four, and what would happen if you applied the adjusted gross to that family of four. It could be considerably higher than $45,000, as a matter of fact, for a larger family.

Mrs. GORDON. Yes.

Now, I know my time is limited, and I could say a great deal about our reasons for these objections to the proposals, but I am going to try to cover the basic elements in the time that I have.

The $250 flat grant departs from the principle of family contributions in proportion to income. Furthermore, we think it reaches too high into the parental income distribution for a program of the basic educational opportunity grants type. Families with incomes of $25,000 are still clearly in the top fourth of the parental income distribution. We think that a reasonable standard for the BEOG program might be that there would be some aid to families in the lower two-thirds of the income distribution.

Even then—and this is something that has not yet appeared specifically in Carnegie Council reports, although it was referred to in "The States and Private Higher Education," there should be some expectation of a contribution from the student's own earnings in connection with all student aid provisions. This is something that we are attempting to spell out in a report that is now in preparation.

Furthermore, just as a tuition tax credit might provide a temptation to an institution to raise its tuition by $250, or whatever the amount was, so, I think, the same argument applies to this provision because there is a broad band of middle- and upper-middle-income families that would be affected. Those are the very families that pay full tuition in general now, and the temptation of institutions to raise tuition by that amount would be quite strong.

We also think that there are better ways of aiding middle-income students. Senator Pell, as you know, has proposed one, which would be a lower family contribution rate. We have stressed the importance of expanding Federal appropriations for the State student incentive grant program, on the ground that the States are then induced to increase their own appropriations for student aid, and on the ground that in relation to the problem of the public-private tuition gap, it is the States that determine tuition policy in public higher education and are in a better position to relate the precise provisions about maximum student grants, and so on, to the conditions prevailing in the individual State.

I might point out in this connection that between 1972–73 and 1976–77 Federal appropriations for the SSIG program increased from zero to $44 million—they are higher than that now, but we do not have more recent figures for the total amount of State scholarship appropriations. Between those 2 years appropriations for State scholarship programs increased from slightly more than $300 million to somewhat more than $600 million. This means that State appropriations increased nearly seven times the Federal appropriation in 1976–77 for the SSIG program. We cannot attribute that whole increase to the incentive created by the Federal matching funds because there were strong pressures in many of the States to increase or adopt State scholarship programs. But nevertheless, this was a very impressive result, and it occurred in spite of the fact that at least four of the larger States—California, Illinois, New York, and Pennsylvania—already had very large State scholarship programs at the time that the State student incentive grant program was adopted.

There are also possibilities, we think, for re-structuring the SEOG program, so that it would be more rationally articulated with other student aid programs, which it has not been in the past. We are working on a proposal for converting SEOG essentially into a program that would meet special needs, let us say, of the handicapped student, or the student from a very large family, which would not be met by the combination of a basic BEOG grant and a State scholarship received through the SSIG program.

I may say, having glanced at H.R. 10854 quickly this morning, that we continue to be very much opposed to making basic educational opportunity grant appropriations conditional on appropriations for the three campus-based programs. We think that this is irrational if the basic educational opportunity grant program is to be, as most people want it to be, an entitlement program.

Let me say a few words about the problem of the independent student. We have very grave reservations about increasing the family size exclusion for independent students from $1,200 to $3,400; not that it may not seem equitable in some ways, but the proportion of students declaring themselves independent, as you know, has been increasing very substantially, and now amounts to more than 40 percent of BEOG applicants. If you think about the situation of the single independent student who is depending, apart from any aid he may get, on part-time earnings, $3,400 is about as much as he is likely to earn in the course of a year. Thus, the impact of this kind of liberalization could well be to increase the incentives for young people to declare themselves independent. Granted, there are conditions that have to be met to be classified as "independent," but a student could meet those in a year's waiting time if he was willing to live away from his family and not be counted as an exemption on the family income tax, and so forth.

The main point is that this provision might well open the door to a very substantial increase in the proportion of young people declaring themselves independent. And this, I think, would probably play havoc with the cost estimates that have been developed in relation to this liberalization of BEOG, of the order of $1 billion. It could turn out to be a great deal more if a large proportion of students declared themselves independent and almost automatically became eligible for the maximum grant.

Now, on the guaranteed student loan proposals, I cannot cover the ground adequately in a limited time, because this proposal can hardly be weighed without reference to the Carnegie Council's serious concern about the whole situation of Federal loan programs. We think there is no aspect of student aid provisions which is more in need of major legislative restructuring than the loan provisions.

The guaranteed student loan program poses the basic problem that it is very difficult to insure equality of opportunity in a program in which banks are almost certain to be influenced by the credit standing of the family.

It is especially difficult to insure that all students are going to get loans in a tight money market, in spite of special allowances.

There is a lack of incentive for collection when the loans are insured by the Federal Government.

There is a growing default rate, as you know—although I think it is dangerous to exaggerate that, and we recognize that the problem is most serious in relation to certain proprietary institutions.

There is a case, we think, for a policy of deferral of interest, not complete subsidization of interest, while the student is in college; a provision which lends itself in some cases to abuse. We think there is a problem in the 10-year repayment period for a college graduate whose income is likely to be low in the first few years after graduation but substantially higher, let us say, 10 to 15 years from graduation. And there is a serious problem of inequity between the direct student loan program, which still bears an anachronistic interest rate of 3 percent, and the guaranteed student loan program, with its subsidized interest rate of 7 percent.

We have strongly proposed the development of a national student loan bank. I think that this proposal has been misinterpreted to some degree, which may account for the fact that it has not received much attention. It is not analogous to the Economic Opportunity Bank originally proposed by Zacharias, which was an income-redistributive proposal and was linked with the concept of full-cost tuition in public higher education, which we do not support.

The national student loan bank would provide for payments in proportion to income in any given year, but the individual would be liable for the full amount of his borrowing, and the length of repayment would vary according to the income of the college graduate. So, it would not be income redistributive, but it would facilitate payment in accordance with income. The interest would be deferred, but not excused while the student was in college. There would be collection through the Internal Revenue Service which is, I think, generally considered to be the only effective way to deal with the problem of defaults; and Sallie Mae could be restructured into such a national student loan bank without a great deal of difficulty.

Now, against the background of what I have said, we question whether there is a case for interest subsidies for families as high in the income range as is now being proposed, only 6 or 7 percent of families have incomes above $45,000, at least as of 1975. The subsidy covers, for all practical purposes, most of the student population in a proposal of this kind. I realize that major restructuring of loan provisions would not be appropriate before the 1979 amendments, but I would urge caution.

There is the additional consideration that the higher the family income you bring into the subsidized loan program, the greater the danger that banks, especially in a period of tight money, are going to favor those students from higher income families whose credit standing, obviously, is superior.

Now, I am going to close with a few words about the position of middle-income families. We very definitely support the concept of liberalizing family income eligibility conditions, along with the concept of some contribution from student earnings. But we are not as convinced as some people seem to be that middle-income families in general are hurting very severely, and on this issue I would like to refer you to the two charts that I have appended to the back of my prepared statement, which show the percentage increases in tuition, board and room, and so forth, in comparison with the consumer price index, and per capita disposable personal income, from 1970–71 to 1976–77, for, first, universities, and second, four-year colleges other than universities. You can readily see from these charts that board and room has not gone up as much as the consumer price index; and far less than per capita disposable income. Tuition has gone up somewhat more, at a rate roughly comparable to the increase in the consumer price index, except in public 4-year colleges, where, since these figures are weighted by enrollment, the abandonment of free tuition at the City University of New York was probably a factor in explaining that large increase.

But if you take tuition and board and room together, the increase has been less than the rise in the consumer price index in general, and considerably less than the rise in per capita disposable income.

You are also probably familiar with the recent Congressional Budget Office report, which showed that, while enrollment had declined somewhat since 1969 for all income groups, the decline was heaviest for the highest income group, who presumably would be least adversely affected by increases in costs. We have long felt that the major explanation of that decline, which showed up among males much more than it did among females, was the change in the draft situation.

There is no doubt that some families are hurting, but probably those in special circumstances. And there a restructuring of SEOG might hurt. But we do not, I think, have a pervasive crisis in terms of the capacity of middle-income families to finance higher education.

Thank you, Mr. Chairman.

Mr. MOTTL. Mr. Chairman?

Mr. FORD. Yes, Mr. Mottl.

Mr. MOTTL. Mrs. Gordon, I certainly appreciate your eloquence in representing the Carnegie Council, and no doubt, you are an expert in education. I am probably just a neophyte, I am in my second term on this committee, but I would have to vigorously disagree with your conclusion about middle-income Americans.

The middle income Americans, in my opinion, have been paying the great tax burden in this country for many years and have received very little equity back from Washington. I think some statistics that have come to my attention state that those families that earn $23,000 or more pay over 50 percent of the personal income tax in this country. We are on the firing line, so to speak, being representatives of approximately 475,000 people in our district. I receive numerous complaints from average income Americans. I would arbitrarily set average income Americans at anywhere from $10,000 to $35,000. I represent basically a suburban district with 9 percent Cleveland and 91 percent suburbs around Greater Cleveland. They are really hurting, those families.

Our observation is that the low-income families, their children have no difficulty in going to college. The high-income students have no difficulty going to college. But, the middle-income students do have much difficulty in going to college.

I just received a letter this past Saturday from a family in Middleburg Heights, Ohio, which is a suburban community in my district, and they earn, between husband and wife, $27,000. They have two students going to college and a third is going to join them; one at a State University, one at a Community College, and the other one to a State University. They just cannot make ends meet; and these students all have part-time jobs.

I think I am in favor of the tax credit as well as the President's program, and I think the President is to be commended, and our subcommittee chairman is to be commended for sponsoring this legislation. As a matter of fact, I feel so strongly in this area that on our markup on Tuesday I am going to introduce some amendments to increase from $16,000 to $25,000, to $16,000 to $30,000 for the $250 grant.

I just cannot speak strongly enough for the middle-income families of this Nation that are really crying out for some help, some equity. A suburban community sends approximately $3 to Washington and gets $1 back. The urban centers send $1 to Washington, and get $3 back. As we have seen recently school levies on real estate for municipal purposes and for school purposes, they are going down to defeat in the so-called "wealthy suburbs" in Greater Cleveland.

So, people are up to their neck in additional taxation, and they would just like to have a little equity so they can send their kids on to higher education, as the low-income and the high-income people have done.

This is my observation as being a second-term House Member.

Mrs. GORDON. I might mention something that I neglected to mention in my testimony, and that is that if all tax expenditures, as they are now called in Federal budget jargon, which really essentially means benefits of tax exemptions, are taken into account, according to the recent CBO report that I was mentioning, 32.5 percent of all Federal student aid benefits go to students with family income from $10,000 to $20,000 on an adjusted gross basis; and 38.2 percent go to families with incomes of $20,000 or more. That includes, of course, family personal income tax exemptions, and such things as exemption of scholarship loans, GI benefits, and so on, from taxation, as well as direct student aid.

Mr. MOTTL. That is all.

Mr. FORD. Thank you very much. We appreciate your comments, although they unsettle me just a little bit. In some respects, perhaps, it is because we have not had an opportunity to get this proposal out far enough ahead of the hearings for witnesses to look at it. But I think that Mr. Mottl has illustrated one of the dimensions of the problem that we face. The first dimension that is absolutely essential is time. Some of us have tried in years past to do some of the things that are in this package, and it was regarded as some sort of backsliding on our original commitment when we passed the Higher Education Act of 1965, and the amendments of 1972 because the mindset was that we were dealing primarily with the very lowest income levels and moving, within limitations of money, as far up as we could.

Any definition of "low income" or "middle income" becomes on its face arbitrary because low income in New York City is not the same as low income in other parts of the country.

Mrs. GORDON. That is all too true.

Mr. FORD. Yet, all of our Federal programs disregard this very obvious discrepancy.

We see a lot of other characteristics, however, that indicate what is happening to middle-income students. One of them is most readily seen if you study the makeup of the student body in the low-cost public institutions, like community colleges.

A decade ago it was thought that the community college would be overpopulated with low-income people. As a matter of fact, in many parts of the country the low-income student is now substantially outdistanced by the middle-income student choosing that type of institution, which has some bearing beyond the statistical distribution of where middle-income students are. The choice that is being made relates to economics.

Mrs. GORDON. That is partly, though, attributable to the increase in age of students going to the community colleges. I mean, it is clear that they are attracting adults, and that those adults are employed, in many cases. I do not suggest that the trend you are talking about does not exist but I think it has to be interpreted in the light, also, of the rising average age of community college students.

Mr. FORD. Well, I think it has to do with the aspects of a district as Mr. Mottl is describing, where people of middle income, despite the statistical evidence that their spendable income has increased at a faster rate than has tuition, find it more likely to be within their capacity to assist a student through providing housing, food, clothing, transportation while they attend a nearby community college, rather than in any way being able to put their hands on some cash to assist them to go away to school. Spendable income in terms of what is really available at the beginning of each school year is the problem they see, particularly when you regard in the industrial Midwest and Northeast the tremendous impact of 4 or 5 years of the recession that we think has abated in some parts of the country very rapidly. But it still remains a very strong factor in what is available in family resources in those areas that depend primarily on the industries that were very heavily hit.

But how do you appraise your view on the independent student against the realities of our census information that indicates that less than half of the students in all colleges and universities of all types in the country today are under the age of 22, the traditional age of graduation?

Mrs. GORDON. Well, Chairman Ford, I concede, certainly, that there are adult independent students who are genuinely no longer with any expectation of support from their parents. I have a particular concern for the woman who has reached the age when she wants to go back and complete her education, if it was interrupted by the raising of children, and so on. But I am calling attention to what I think has become a growing problem in the BEOG program, that there is an incentive, which certainly would be increased by this liberalization, for students who come from families that could afford to contribute something, to declare themselves independent.

This is a growing problem with the BEOG program, which we strongly support. I am not completely confident as to what the answer is. But if it goes on on a very large scale, then obviously the relationship which was the underlying principle of the BEOG program between family capacity to pay, and the availability of student aid, breaks down. I am not sure that the evidence is clear that students from high-income families are declaring themselves independent, because we do not have very good evidence on that. But the danger is certainly there.

I would like to come back, if I might, for a moment to the SSIG program, which I think—and we think—legitimately plays an important role in the whole student aid picture, and which tends to some degree to get neglected in debates about Federal student aid. In the preparation of the report on "The States and Private Higher Education" we did a survey of private institutions in States that had very substantial State scholarship programs, and perhaps, as in the case of New York, direct institutional aid to private higher education, versus States that had either no scholarship, or a very minimal State scholarship program.

One of the most interesting findings—and I mention this in my prepared testimony—from that survey was that in the States with substantial scholarship programs the proportion of students from families with incomes of $18,000 or more, who were getting some types of student aid, was substantially higher than in those States that had minimal or no State scholarship programs.

Now, this was not solely, or even chiefly, I think because the family eligibility income standards tend to be somewhat more liberal in State programs—they are in some States, but not in all. I think it was primarily because a student who could get a BEOG, plus a significant State scholarship, tends to relieve the institution of allocating institutional funds for student aid to that student. Institutional funds, which are substantial in the wealthier private institutions, can then be directed to able students from families who would not qualify for public student aid.

In other words, private student aid is playing a role, and substantial State scholarship programs help it to play that role.

Mr. Ford. Now, also, it is true that many of the States have made very substantial contributions to the student attending a private college or university. That would have some bearing on that.

Mrs. Gordon. Oh, yes, that is part of my argument, really, essentially.

Mr. Ford. For instance, the supplements that are provided in my State are much more generous, as a matter of fact, on the State level, than this legislation. But it applies only if you go to a nonpublic institution.

Mrs. Gordon. Well, of course this situation varies among States, but a typical situation in a State scholarship program is that the ceiling on the size of the grant is much lower for a student who goes to a public institution because that student cannot receive more than the tuition actually charged, whereas there is a considerably higher ceiling that relates to students who go to private institutions, typically $15,000 or above. In California, which has the most liberal program in this particular respect, the ceiling is $27,000, which is a very substantial tuition grant.

Mr. Ford. I would like to take it back to the independent student for a moment. There are two very significant things that this legislation purports to do with respect to independent students. The first one you touched on with the single independent student and the question of raising the income level for qualification.

The second one, however, is something that I would hope, based on one of your comments, that you would welcome; and that is treating the woman with a family to support, who goes back to the university to complete an education, or to seek a career goal that she thinks would make her better able to function, like we treat other families. Even in the family where there was a husband still present who was perhaps in the early stages after completing his education, they would be considered like other families for the income limitations, and become eligible where they are not eligible at the present time for BEOG.

The example that I think we used in working this out was that a family of four with a single woman—a divorcee or widow—as the head of the household, would at the present time, if she received as little as $3,600 in child support and another $3,000 from some sort of assistance, be ineligible for any sort of assistance at all.

Under this proposal, she would be eligible for a BEOG grant to begin with of approximately—a full grant, as a matter of fact—of $1,800, and still be eligible for additional funds or loans that would make it possible for her to become literally a full-time student and still have this outside support coming to her family. It would, for the first time, treat that family the same as the traditional family with the student being a dependent of the family.

Mrs. Gordon. Yes; I am aware of that feature of the proposals. I have not expressed any objection to that. I think the danger is with the young single independent student. Obviously, we do not want to create an incentive for premature marriage. But, on the other hand, treating the family somewhat more liberally than the single independent student does tend to introduce an age differentiation, because the single independent student is likely to be younger. I think that this is where the danger of getting away from the original principle of the BEOG program, which was contribution in accordance with family capacity, is greatest.

Mr. **Ford**. But you continually referred to that as a danger, as if there is a truth in the idea that anything that encourages the student to separate from the family in terms of making their educational choices is inherently bad.

Mrs. **Gordon**. It is bad in the sense that it subverts the original intention of BEOG. That is, the idea was that students from low income families should be assisted in attending college, and that need proportionally becomes less acute with increasing family income.

Now, the more you get students declaring themselves independent, the less the BEOG program is related to family income, that is, parental income. When I use the term "danger," that is what I am talking about.

Mr. **Ford**. I yield to the gentleman from Alabama.

Mr. **Buchanan**. Thank you, Mr. Chairman.

If we make a distinction between single independent students and those who have dependents, there would, indeed, if you are talking about a "needs test," seem to be greater need with those who have dependents. Also, the young people might get married, instead of just living together.

Mrs. **Gordon**. That is clearly a danger—or maybe not a danger.

Mr. **Ford**. Even an expression like "premature marriage" has a different connotation to a Baptist minister. [Laughter.]

What young people consider "premature" is anything within 5 years of cohabitation. [Laughter.]

Mrs. **Gordon**. All our friends' children are doing it these days.

Mr. **Ford**. I am looking at the ACE report now, on the distribution since 1977 of the various aid programs. It is interesting to note that when you start across the chart, looking at the sex of the people who are now served by the existing programs, you find in the BEOG program, 55.1 percent female, 44.9 percent male; the SEOG program, 53.7 female, 46.3 male; college work study, 55 percent female, 45 percent male; and then there is a sudden shift when you get to the NDSL program, it is almost even, 49.7 percent women, 50.3 percent men. When you go over to guaranteed student loan, it is 46 percent women and 53.7 percent men. A quick look at that would lead some people to believe that we do not need to liberalize the existing structure of the programs to assist women because someone might draw the conclusion that it is already biased in that direction.

We chose, instead, to assume that the figures were telling us something that had heretofore been ignored about who is going to college and for what reasons in this country. The kind of independent we are talking about is turning out to be a female, where that was a predominantly male status at the time of the original enactment of the legislation a few years back.

The present population in colleges and universities has become less white and male than ever in the history of the country. And when one looks at what females are doing in colleges and universities, not only are we training nuclear physicists who are females today, but we are also populating a good many of the other types of eductional opportunities that had been predominantly male with females. We find females going to school in larger numbers as independent students today than in the past.

The family that might very readily accept the idea of making sacrifices to support a nice, young, middle-class girl to be a schoolteacher could be reluctant if she suggests that she really wants to become a medical technician, or a math teacher, with the ultimate objective of becoming an astronaut. These characteristics lead people to become independent, in my opinion, more readily than the question of a few hundred dollars one way or another because of the change in status.

Mrs. **Gordon**. That could well be.

Mr. **Ford**. So, I am not agreeing that independence is necessarily a dangerous thing to support.

Mrs. **Gordon**. I think those figures also, though, have to be interpreted in the light of the fact that female enrollment rates have been rising much more rapidly than male. As I recall, the latest report on enrollment in fall of 1977 showed that among entering freshmen, women were in the majority. So, the situation in that respect has changed since 1972.

Mr. **Ford**. Mr. Buchanan?

Mr. **Buchanan**. Thank you, Mr. Chairman.

Do you believe there should be any increase in the family size offset for independent students?

Mrs. **Gordon**. Well, I am not prepared, really, because that is a subject that we have not had a chance to consider very carefully. After all, these proposals have just come out within the last couple of weeks. I think that there might be a case for some increase, but I think $3,400 is pretty high because it means that there are very few independent students who would not qualify for a maximum grant.

Mr. **Buchanan**. Were you suggesting that the time has come to eliminate the test entirely for work study?

Mrs. **Gordon**. I would not say that necessarily, but the Carnegie Council did express that as a goal toward which we might move. In "The Federal Role," which came out in 1975—which I have here—we recommended an increase in the appropriation for the college work study program—let me just get the right table here—from $300 million, which was about what it was in 1974–75 when this report came out, to $700 million in constant 1974 dollars. Now, it is being increased, and we are very pleased to see that.

In general, considering the very large increases that have occurred in the appropriations for the basic educational opportunity grant, along with some increases for the CWS program, that probably we have reached the point where it would not be inappropriate to remove family income eligibility conditions from the college work study program.

And when I say that, Representative Buchanan, I have in mind the fact that students from middle-income families, and upper-middle-income families, do tend—and that is a fact of life that we cannot ignore—to get better scores on achievement tests and aptitude tests; the handicap of coming from a low-income family is associated with low family or parental levels of education. Students from middle- and upper-middle-income families can hold a part-time job, typically, without suffering in terms of college achievement or college grades because they are able and have a good educational background.

So, we think this program is one in which it is appropriate eventually to remove family income eligibility.

Mr. **Buchanan**. Of course, there is another side to that coin. They may be at a better competitive advantage in obtaining part-time employment.

Mrs. **Gordon**. Sure, that is true, and nobody knows exactly how much we need in terms of college work study to supplement the kinds of part-time jobs that students can get on their own. One has to be somewhat arbitrary about that.

Mr. **Buchanan**. Would you in any way give priority to low-income students?

Mrs. **Gordon**. Well, the prosopal that is before us is to relax the family income eligibility conditions, and to direct a certain proportion of the added college work study funds to families with incomes of $16,000 or more; this we support. I really do not want to be pressed too much farther than that.

Mr. **Buchanan**. Although I am a cosponsor of the proposal before us, I am still exploring it myself. The present proposal really is Chairman Ford's proposal as negotiated and compromised in communication with the White House. While I am delighted that we have a President who has come forward with a major initiative, and I in no way mean to discount that, it might be useful to understand that this President's proposal was pretty thoroughly written on the Hill.

Mr. **Ford**. You would have liked it much better before it went through the Office of Management and Budget. [Laughter.]

Mr. **Buchanan**. Where would you place the cutoff for an average family of four, at $18,000, $20,000, $22,000, or at another level?

Mrs. **Gordon**. I have not worked that out exactly, but I would go on the principle of reducing somewhat, as Senator Pell has suggested, the percentage that the family would be expected to contribute, wherever that fell. I really do not want to be pressed on that detail. I think $25,000 is too high.

Mr. **Buchanan**. Do you have any suggestion—and I realize, you said you may not be prepared to speak specifically on the question that I am asking—as to how much of the $1.2 billion new money available under this program we should put in the SSIG and SEOG programs?

Mrs. **Gordon**. Well, we have recommended in the past—let me look at that same table again—a gradual increase. I stress the word "gradual" here because when we were preparing the 1975 report called "The Federal Role on Postsecondary Education," we recognized that from the point of view of the overall Federal budget, the number of veterans who would be eligible for GI educational benefits, which has been in recent years the largest Federal program, would be declining as the number of years since the height of the Vietnam conflict rose; and therefore, from the point of view of the overall Federal budget there was a case for gradual increases in appropriations for other student aid programs. From the fiscal point of view, it could be done more easily as the GI expenditures declined.

We recommended at that time an increase in the SSIG program in constant 1974 dollars from $20 million in 1974–75 to $470 million in 1979–80. For 1978–79, the amount would have been $360 million in 1974 dollars. Now, that, of course, is a great deal more than is being allocated now, and one could not jump that fast, presumably.

So, I have a little difficulty in coming up with a precise figure for SSIG. I would think going up to something like $100 million at this point would be appropriate. As I say, the program has really been very effective in stimulating the States to come forth with more scholarship funds. We think this is the major direction in which we ought to go, and that the BEOG program should be regarded as a program, primarily, to aid students to meet their noninstructional costs, and that the State scholarships should cover the tuition part of the cost. This would be particularly appropriate because the States do determine the level of tuition in public higher education.

Mr. **Buchanan**. We had a proposal by another witness before the subcommittee that there be a two-tier approach.

Mrs. **Gordon**. That is essentially what I am talking about.

Mr. **Buchanan**. To stimulate those States that are already overmatching substantially by having a rolling base year on appropriation in excess of the $75 million. Those States who are already participating—a number of States are already substantially overmatching—would have a new incentive for matching funds.

Mrs. **Gordon**. Well, that goes back to a problem, Mr. Buchanan, that we called attention to in our report. When that legislation was adopted in 1972–73, Federal matching was to apply only to increases from 1972–73 on. Now, that was very inequitable in a way for the States that already had large scholarship programs.

So, we have made a proposal to go back to 1969–70 as the matching date. We suggest that particularly because that is the first year for which there are general statistics on State scholarship programs. It would be more difficult to determine what a State had been appropriating if you went back before that date, although it would not be impossible.

But New York, California, Illinois, and Pennsylvania particularly, are getting minimum benefit from the SSIG program, especially with appropriations at their present level because they already, you see, had large programs before. The latest figures show that New York, for example, is only getting 2 percent of its total scholarship funds from SSIG.

Mr. **Buchanan**. It would seem there would have to be other States who by now also are overmatching. Do you think it would be advantageous if we changed the based year rolling the base year?

Mrs. **Gordon**. Well, I would think that is certainly a concept worth looking into. I have not thought about it.

Mr. **Buchanan**. Do you have any further comments on SEOG?

Mrs. **Gordon**. Well, in the past we have recommended gradual phasing out of most of the SEOG appropriation on the ground that this program has not been equitable in terms of the way it has worked out. I am basing that statement on two studies that I am sure members of the subcommittee are familiar with, that were conducted by the College Entrance Examination Board. However, it is clear that the

SEOG program is very popular with institutions and with student aid officers, because it does give them some flexibility; it is administered through them.

We are working now toward a proposal under which the SEOG program would aid institutions in meeting special needs that could not be met very readily through a combination of BEOG and SSIG. It might be in a State where there are practically no State scholarship funds, for example, that SEOG would play presumably a more important role.

Mr. **Buchanan.** Thank you very much. I appreciate so much your contribution to our hearing.

Mr. **Ford.** Mr. Cornell?

Mr. **Cornell.** Would it be proper for me to conclude from your written and verbal testimony that, really, what you disapprove of in the legislation before us is substantially based on the same ground of why you disapprove of the tuition tax credit?

Mrs. **Gordon.** Well, I think that comment would apply particularly to the $250 flat grant.

Mr. **Cornell.** What about the $40,000?

Mrs. **Gordon.** That is a different kettle of fish, I think. But the $250 flat grant not only departs from the principle of family contribution according to need, but it carries the same danger, I think, that the tuition tax credit does, that because it is so small in relation to tuition in private higher education, once you adopted that kind of provision, there would be very substantial pressure to increase the amount and to increase the upper family income level to which it applied.

And then, the cost of that provision could become very great. The more you increased it, the more you would depart from the principle of family contribution according to capacity.

Mr. **Cornell.** In your proposed National Student Loan Bank, how would eligibility be determined?

Mrs. **Gordon.** There would not be any.

Mr. **Cornell.** There would not be any?

Mrs. **Gordon.** No. You see, interest would not be subsidized under that proposal. The case for an interest subsidy is strong if you want to gear the funds mostly to low-income students; but if you have a combination of grants, work study, state Scholarship programs, and so on, which pretty well meets the needs of low-income students, then the appropriate role of a loan program is to aid those students whose families for one reason or another—and this would be chiefly middle and upper income families—cannot meet the needs of their children for higher education.

We do not think that there have to be strings attached if you get away from an interest subsidy program. It is true that some people may overborrow, and we did in our proposal set some limits on the total amount of borrowing in a year, or over the total period of loans. But most people are inhibited from borrowing very much by the dislike of indebtedness, the interest obligations accrued, and so on.

Mr. **Cornell.** Why I asked you that is, there are a few of us on the subcommittee who are interested in the possibility of a universal loan program.

Mrs. **Gordon.** Good.

Mr. **Cornell**. That might amount to what you are suggesting. I noted, though, when you referred to it, you talked about the deferred interest for those that had, after they finished their college education, a lower income; I understand that they would have a longer period for repayment.

Mrs. **Gordon**. Yes.

Mr. **Cornell**. At the same interest rate?

Mrs. **Gordon**. Yes; it would be essentially the same interest rate, but the payments would be spread over a longer period. We estimated at the time—and I do not think interest rates are very much different today, this proposal was developed in 1970—we estimated that the rate of repayment in order to meet the average loan would be about three-quarters of 1 percent per $1,000 borrowed, per year. Now, when I say interest would be deferred, what I mean, of course, is that the total amount of interest not paid while a student is enrolled, would then be added to the total indebtedness at the time the repayment period began. That would be spread over the repayment period, along with the original capital value of the loan.

Mr. **Cornell**. Thank you, Mr. Chairman.

Mr. **Ford**. Mr. Biaggi?

Mr. **Biaggi**. I just have one question, Mrs. Gordon. During the joint hearing of the Senate and the House, it was suggested that there be no eligibility requirements, and that would eliminate all of the paperwork, which seems to be very burdensome in the student loan program, and permit all students the right to apply, whether their family income was $40,000 or otherwise. Would you care to comment on that?

Mrs. **Gordon**. Well, I think I have implied in my previous comments what my answer to that would be. The case for an interest subsidy, as opposed to deferral of interest, becomes weaker and weaker the higher the income of the families that are affected. Furthermore, bringing high-income families into this program would increase the danger that banks, which are obviously going to be concerned with the credit standing of the family, in any tight money market situation, would give preference to students from affluent families.

The National Students Loan Bank, we think, does not have that objection because there is no interest subsidy, it is not a subsidized program, except to the extent that the rates charged would have to cover situations in which a borrower died at a later point, or became permanently and totally disabled.

Mr. **Biaggi**. The relationale behind that suggestion was that there would be relatively few students of that income category making application, and by virtue of permitting the distinction, it would eliminate the very costly processing operation.

Mrs. **Gordon**. Well, I think that is certainly true, but some of our objections to the combination of GSL and the direct student loan program would still hold. We really think Congress should take a serious look at a more uniform National Student Loan Bank type of loan program.

Mr. **Biaggi**. Thank you, Mr. Chairman.

Mr. **Ford**. Thank you very much. I am sure the committee, in contemplating the reenactment of the Higher Education Act in 1979, will be looking at that and other alternatives that have been floating around for some time. But, I have to tell you that I am less than enthusiastic about becoming involved in that kind of a dramatic change in conjunction with this rather temporary approach.

Mrs. Gordon. Oh, yes, I think that is a perfectly reasonable position. You cannot overhaul the whole student loan program before the 1979 amendments.

Mr. Ford. Thank you very much for your assistance to us, and for coming in this morning.

Now we have Dr. Paul J. Reiss, executive vice president of Fordham University, who is here on behalf of Father James Finlay, the president of Fordham.

I recognize Mr. Biaggi.

Mr. Biaggi. Thank you, Mr. Chairman.

It is with regret that Father Finlay, the president of Fordham University, was not able to testify, but I am happy that he sent Dr. Paul Reiss instead, his executive vice president.

Fordham University, as most people throughout the world know, is an outstanding institution, located directly in my district. We have a very close rapport. It represents opportunity for substantial education, and it requires the kind of assistance that we have been trying to provide in this committee and the full committee for some time.

Happily, I feel confident that Dr. Reiss will be addressing himself to it in a very able fashion. This legislation, I believe, will provide some very substantial assistance. I welcome you.

Mr. Ford. Without objection, the prepared statement by Dr. Reiss will be included in full at this point in the record, and you may proceed to highlight it, or add to it.

[The statement of Paul Reiss follows:]

STATEMENT OF PAUL J. REISS, EXECUTIVE VICE-PRESIDENT, FORDHAM UNIVERSITY

MR. CHAIRMAN, AND MEMBERS OF THE SUBCOMMITTEE ON POSTSECONDARY EDUCATION. I AM DR. PAUL J. REISS, EXECUTIVE VICE PRESIDENT AND PROFESSOR OF SOCIOLOGY AT FORDHAM UNIVERSITY IN NEW YORK CITY. THE REVEREND JAMES C. FINLAY, S.J., PRESIDENT OF THE UNIVERSITY WISHED TO ADDRESS YOU TODAY BUT WAS UNABLE TO RE-ARRANGE HIS SCHEDULE. WHILE I HAVE ONLY ATTEMPTED TO SUBSTITUTE FOR FATHER FINLAY ON A NUMBER OF OCCASIONS IN RECENT YEARS, ON THE MATTER BEFORE THIS SUBCOMMITTEE, HR 10854, THE MIDDLE INCOME STUDENT ASSISTANCE ACT, I MIGHT EVEN BE ABLE TO SPEAK WITH GREATER AUTHORITY AND INTENSITY, DRAWN FROM PERSONAL EXPERIENCE, THAN COULD HE. NOT AS EXECUTIVE VICE PRESIDENT OF A LARGE UNIVERSITY, BUT AS FATHER OF A LARGE FAMILY WITH FOUR CHILDREN CURRENTLY ENROLLED IN COLLEGE I CAN PERSONALLY APPRECIATE AND ATTEST TO THE IMPORTANCE OF STUDENT ASSISTANCE IN POSTSECONDARY EDUCATION. FATHER FINLAY'S CHOSEN LIFE STYLE DOES NOT PERMIT HIM THIS EXPERIENCE.

IT IS WITH PARTICULAR PLEASURE ALSO TO BE ABLE TO TESTIFY AT THE REQUEST OF CONGRESSMAN MARIO BIAGGI. WE AT FORDHAM REJOICE AT BEING REPRESENTED IN CONGRESS AND ON THIS IMPORTANT SUBCOMMITTEE BY ONE WHO HAS FOR MANY YEARS DEMONSTRATED CONCERN OVER THE ISSUES FACING HIGHER EDUCATION, AND WITH ONE WHO HAS PROVIDED THOUGHTFUL SUPPORT FOR OUR EFFORTS ON BEHALF OF THE EDUCATION OF THE YOUTH OF OUR CITY, STATE AND NATION.

IN FORDHAM UNIVERSITY, ITS STUDENTS AND THEIR FAMILIES THIS SUBCOMMITTEE SHOULD BE ABLE TO PERCEIVE IN VERY CLEAR TERMS THE ISSUES AND PROBLEMS INVOLVED IN THE FINANCING OF POSTSECONDARY EDUCATION WHICH NOW FACE THIS NATION, AS WELL AS THE MANNER IN WHICH HR 10854 WOULD HAVE AN IMPACT UPON THEM. FORDHAM UNIVERSITY HAS SINCE ITS FOUNDING IN 1841 BEEN

PROVIDING HIGHER EDUCATION FOR STUDENTS, COMING PREDOMINANTLY FROM URBAN WORKING CLASS AND MIDDLE INCOME FAMILIES. A LARGE PROPORTION OF OUR STUDENTS COME FROM FAMILIES WHERE THEY REPRESENT THE FIRST GENERATION TO ATTEND COLLEGE. THROUGH THE YEARS IMMIGRANTS AND THE CHILDREN OF IMMIGRANTS HAVE CONSTITUTED A SUBSTANTIAL PORTION OF THE STUDENT BODY. FOLLOWING THIS TRADITION, STUDENTS FROM MINORITY GROUPS, PRIMARILY BLACK AND PUERTO RICAN, CURRENTLY CONSTITUTE ABOUT 18% OF THE STUDENT BODY--A RELATIVELY HIGH PERCENTAGE FOR AN INDEPENDENT COLLEGE FINANCED PRIMARILY BY TUITION.

FORDHAM UNIVERSITY IS PROUD OF ITS RECORD, ITS CONTRIBUTION TO THE HIGHER EDUCATION OF THE AMERICAN POPULATION AND THE ACHIEVEMENTS OF ITS GRADUATES. THE LAST DECADE, HOWEVER, HAS BEEN ONE OF CONSIDERABLE FINANCIAL DIFFICULTY FOR THE UNIVERSITY. WE EXPERIENCED A SEVERE FINANCIAL CRISIS FROM WHICH WE ARE STILL ATTEMPTING TO RECOVER. EVENSO, WE HAVE ACHIEVED A MEASURE OF SOME STABILITY IN MAINTAINING A BALANCED BUDGET FOR THE PAST EIGHT CONSECUTIVE YEARS. BALANCE WE MUST FOR OUR RESERVES ARE VERY MEAGRE. THE LONG TERM MAINTENANCE AND RENOVATION OF OUR PHYSICAL PLANT HAS CONSEQUENTLY SUFFERED: AND THERE IS LITTLE MONEY FOR THE NEW AND VALUABLE PROJECTS WHICH WOULD ENRICH THE EDUCATION OF OUR STUDENTS. THROUGH ALL THESE FINANCIAL DIFFICULTIES THE UNIVERSITY HAS MAINTAINED A POLICY OF KEEPING ITS TUITION AS LOW AS POSSIBLE SO AS TO KEEP A FORDHAM EDUCATION WITHIN THE MEANS OF THE WORKING CLASS AND MIDDLE INCOME STUDENTS WHOM WE HAVE TRADITIONALLY ENROLLED.

OUR CURRENT TUITION OF $2,800 FOR A FULL-TIME UNDERGRADUATE ON OUR BRONX CAMPUS, AND $2,464 ON THE CAMPUS IN MANHATTAN ARE LOW BY STANDARDS OF PRIVATE COLLEGES AND UNIVERSITIES. THE STUDENT ASSISTANCE SUPPORT

RECEIVED BY OUR STUDENTS FROM FEDERAL AND STATE PROGRAMS HAVE, OF COURSE, ASSISTED FAMILIES IN MEETING THESE COSTS AT FORDHAM. FOR THIS WE ARE MOST GRATEFUL.

AT THE PRESENT TIME, HOWEVER, FORDHAM, ALONG WITH OTHER COLLEGES AND UNIVERSITIES, IS FINDING THAT THE COST OF PROVIDING QUALITY HIGHER EDUCATION IS INCREASING SUBSTANTIALLY EVERY YEAR. DESPITE THESE INCREASING COSTS, FORDHAM ATTEMPTS TO KEEP TUITION INCREASES TO THE ABSOLUTE MINIMUM NECESSARY. WITH PUBLIC SUPPORTED INSTITUTIONS ALL AROUND US OFFERING HIGHER EDUCATION AT A MERE FRACTION OF THE COST TO THE STUDENT ATTENDING FORDHAM, WE ARE OBVIOUSLY NOT TOTALLY FREE TO RAISE OUR TUITION IF WE WISH, AS INDEED WE DO, TO CONTINUE TO EDUCATE A BROAD SEGMENT OF THE POPULATION IN OUR AREA.

WHO ARE OUR STUDENTS? THEY ARE NOT AFFLUENT; IN FACT THEIR FAMILY INCOMES ARE LOWER THAN THOSE OF THE AVERAGE STUDENT ATTENDING COLLEGE FROM NEW YORK STATE. THEY ARE, HOWEVER, ACADEMICALLY ABLE, BEING ACADEMICALLY ABOVE THE AVERAGE OF COLLEGE APPLICANTS WITHIN THE STATE. THIRTY PERCENT OF THE FORDHAM UNDERGRADUATE STUDENTS RECEIVE BEOGS ASSISTANCE. IN ADDITION, THE UNIVERSITY AWARDS $3 MILLION FROM ITS OWN CURRENT FUNDS AS FINANCIAL AID, A FIGURE WHICH REPRESENTS ONE-TENTH OF ITS TUITION REVENUE.

BUT THE ASSISTANCE FROM FEDERAL AND STATE PROGRAMS AND FROM THE UNIVERSITY ITSELF IS NOT ENOUGH. MOST OF THE STUDENTS HOLD PART-TIME JOBS SOME WORKING TOO MANY HOURS TO THE DETRIMENT OF THEIR ACADEMIC WORK. ABOUT THREE-QUARTERS OF THE STUDENTS WHO DROP DO SO BECAUSE THEY CANNOT COME UP WITH THE FUNDS NECESSARY TO CONTINUE.

LET ME READ TO YOU A PORTION OF A LETTER BY SUCH A STUDENT WHICH WAS PUBLISHED RECENTLY IN OUR STUDENT NEWSPAPER, THE RAM:

> I AM A FRESHMAN HERE AT FORDHAM UNIVERSITY, AND SINCE MY RETURNING TO THE CAMPUS, I HAVE BECOME FEARFUL THAT I MAY NOT MAKE IT TO SOPHOMORE STATUS.
> I AM A FULL-TIME STUDENT WORKING MY NON-EDUCATIONAL HOURS AS A MESSENGER FOR A LAW FIRM. BECAUSE OF FAMILY FINANCIAL PROBLEMS, RANGING FROM MEDICINE FOR A PARENT, PROGRAM FEES FOR A MENTALLY RETARDED SISTER, HIGH MORTGAGE PAYMENTS, AND ALL OTHER USUAL EXPENSES, I HAVE TAKEN THIS JOB TO HELP CONTRIBUTE TOWARDS MY COLLEGE TUITION.
> WHEN I ENTERED THE UNIVERSITY, I WAS ADVISED TO SECURE A STUDENT LOAN EACH OF MY FOUR YEARS. BECAUSE OF THIS NECESSITY, I, AND OTHERS, WILL LEAVE COLLEGE AT LEAST $6,000 IN DEBT. I AM NOT LOOKING FORWARD TO THIS ASPECT OF MY FUTURE.
> FORDHAM UNIVERSITY HAS GIVEN MY BROTHER AND SISTER A COLLEGE EDUCATION. THE SAME IS TRUE FOR MY SISTER-IN-LAW, AND MY BROTHER-IN-LAW (ALSO A GRADUATE OF FORDHAM LAW SCHOOL). MY BROTHER-IN-LAW'S FATHER RECEIVED HIS MASTER'S DEGREE FROM ROSE HILL. I REGRET THAT DUE TO THIS TUITION INCREASE I WILL NOT BE THE SIXTH MEMBER OF MY FAMILY TO PASS THROUGH THE GOLDEN GATES OF GRADUATION. I HAD ANTICIPATED ATTENDING LAW SCHOOL, MOST PROBABLY FORDHAM'S, BUT I NOW FEEL THAT I CAN ONLY ANTICIPATE AN INCOMPLETE EDUCATION

PERHAPS THE MOST SIGNIFICANT DEVELOPMENT IN THE FINANCIAL AID PICTURE TODAY IS THE INCREASING APPEALS FOR HELP WHICH WE ARE RECEIVING FROM STUDENTS WHOSE FAMILIES ARE IN THE MIDDLE INCOME GROUP. IT IS CLEAR TO US THAT MANY FAMILIES NOT NOW BEING ASSISTED THROUGH BEOGS ARE IN DESPERATE NEED FOR HELP; YET WE HAVE NOT BEEN ABLE TO MEET THEIR NEED.

IN THIS SITUATION WE AT FORDHAM, INCLUDING THE FAMILIES OF STUDENTS, FIND THAT THE INTENT OF THE MIDDLE INCOME STUDENT ASSISTANCE ACT IS

MOST TIMELY: IT WOULD SEEK TO PROVIDE ASSISTANCE WHERE IT IS NOT ONLY NEEDED BUT WELL-DESERVED. WE WOULD LIKE TO LEND OUR SUPPORT TO SUCH EFFORTS AND EXPRESS OUR APPRECIATION TO THE ADMINISTRATION AND TO CONGRESS FOR THEIR RECOGNITION OF THE IMPORTANCE OF IMMEDIATELY ADDRESSING THIS PROBLEM.

ON THE WHOLE WE FIND THAT THE STUDENT ASSISTANCE PROGRAMS CURRENTLY IN EXISTENCE PROVIDE ADEQUATE MECHANISMS TO MEET THE FINANCIAL NEEDS OF COLLEGE STUDENTS. THE OVER-ALL FUNDING LEVEL OF $5.2 BILLION MAY ALSO BE SUFFICIENT IF PROPERLY ALLOCATED AMONG THE SEVERAL PROGRAMS. THE QUESTION OF THE MANNER IN WHICH FUNDING IS ALLOCATED AMONG THE SEVERAL PROGRAMS IS, HOWEVER, MOST CRITICAL. IT IS HERE WHERE WE WOULD SUGGEST A SOMEWHAT DIFFERENT THRUST FOR THIS LEGISLATION. MORE WILL BE SAID OF THIS LATER.

AT THIS TIME I WOULD LIKE TO DIRECT THE SUBCOMMITTEE'S ATTENTION TO THE PRINCIPLE OF NEED AS THE BASIS OF DETERMINING FINANCIAL ASSISTANCE. NEED HAS BEEN THE BASIS FOR THE STUDENT ASSISTANCE PROGRAMS TO DATE; PROGRAMS WHICH HAVE BEEN DIRECTED LARGELY TO STUDENTS FROM THE LOWER INCOME FAMILIES, AND PROGRAMS WHICH NOT INCIDENTALLY HAVE GREATLY ENHANCED FREEDOM OF ACCESS TO HIGHER EDUCATION. THE PERCEIVED NEED FOR ASSISTANCE TO THE MIDDLE INCOME STUDENT HAS BROUGHT FORTH THE BILL UNDER CONSIDERATION TODAY. YET THE PRINCIPLE OF NEED IS ABANDONED IN THE PRESENT BILL IN THE PROVISION FOR A GUARANTEE OF A $250 BEOGS GRANT PER STUDENT PER YEAR WITHOUT REGARD TO NEED. MR. CALIFANO STATED THAT BEOG GRANTS ESTIMATED AT $700 MILLION WILL GO TO 2 MILLION MIDDLE INCOME STUDENTS NOT PREVIOUSLY PARTICIPATING WITH

A GUARANTEE OF $250 FOR EACH STUDENT. $500 OF THE $700 MILLION WOULD BE USED UP IN PROVIDING $250 MINIMUM GRANTS.

THERE IS NO DOUBT THAT ANY STUDENT TODAY COULD USE THE $250. BUT IS THIS THE MOST EFFECTIVE MANNER IN WHICH TO ALLOCATE THE FUNDS WHICH CAN BE MADE AVAILABLE FOR STUDENT ASSISTANCE? IS THIS THE APPROACH BEST DESIGNED TO MEET THE MOST PRESSING OF NEEDS AMONG MIDDLE INCOME STUDENTS TODAY? I THINK NOT.

THE NEED FOR ASSISTANCE WHICH MIDDLE INCOME FAMILIES HAVE IS DEPENDENT UPON TWO MAJOR FACTORS. ONE IS THE FINANCIAL RESOURCES WHICH THE FAMILY DOES OR DOES NOT HAVE. USING FAMILY ADJUSTED INCOME AS A STARTING POINT, AND CONSIDERING OTHER FACTORS SUCH AS SIZE OF FAMILY AND NUMBER IN COLLEGE, WE NORMALLY CALCULATE AN EXPECTED FAMILY CONTRIBUTION TO THE TOTAL EDUCATIONAL COST. WE ALSO CALCULATE THE TOTAL COST ITSELF WHICH VARIES ACCORDING TO THE RATE OF TUITION BEING CHARGED. ON THE BASIS OF THIS WE CAN DETERMINE THE NEED, IF ANY, FOR ASSISTANCE WHICH SHOULD BE MET IN EACH INSTANCE.

LET ME ILLUATRATE THE PROBLEM WE PERCEIVE WITH THE PROVISION OF THE PRESENT BILL GUARANTEEING $250 WITHOUT REGARD TO A DETERMINATION OF NEED. (I AM ADDRESSING MYSELF AT THIS TIME TO THE CHART ON THE NEXT PAGE.)

A FAMILY SOMEWHAT TYPICAL OF THE MANY MIDDLE INCOME FAMILIES OF STUDENTS ATTENDING FORDHAM WOULD BE A FAMILY OF FOUR WITH TWO CHILDREN ATTENDING COLLEGE AND WITH A TOTAL INCOME OF $18,000. A STUDENT FROM SUCH A FAMILY MIGHT ATTEND FORDHAM OR COULD, OF

PROFILE OF FORDHAM MIDDLE-INCOME STUDENT:

Student from a family of four (two parents and two children, both children attending college), with an income of $18,000.

	FORDHAM		CUNY-SUNY	
Tuition		$2,800		$750
Parental Contribution	$1,270		$1,270	
Estimated TAP Award	400		100	
Carter/Califano BEOGS	250		250	
Total Assistance		$1,920		$1,620
		$880 in unmet need		$870 in excess of need

COURSE, ENROLL AT ONE OF THE COLLEGES OF THE STATE UNIVERSITY OF NEW YORK OR THE CITY UNIVERSITY OF NEW YORK. IN EACH CASE A CSS* NEEDS ANALYSIS MIGHT INDICATE AN EXPECTED PARENTAL CONTRIBUTION OF $1,270. THE ADDITION OF A $250 BEOGS GRANT TO A LOW TUITION (STATE SUBSIDIZED) AND STATE TUITION ASSISTANCE GRANT WOULD PROVIDE THIS STUDENT WITH ASSISTANCE SUBSTANTIALLY IN EXCESS OF NEED IF ATTENDING A LOW TUITION INSTITUTION. YET IF THE STUDENT ATTENDED FORDHAM HE OR SHE WOULD HAVE A SUBSTANTIAL UNMET NEED REMAINING.

THUS THIS PORTION OF THE BILL WILL HAVE THE EFFECT OF UNDERMINING RATHER THAN FURTHERING FREEDOM OF CHOICE OF INSTITUTION IN HIGHER EDUCATION. IN ADDITION TO FREEDOM OF ACCESS TO HIGHER EDUCATION ONE OF THE UNDERLYING PRINCIPLES OF OUR SUPPORT FOR HIGHER EDUCATION HAS BEEN THAT OF FURTHERING FREEDOM OF CHOICE. IF WE ALLOW THE FINANCIAL SUPPORT TO BECOME SO UNBALANCED AS IN THE NOT UNCOMMON CASE WHICH I JUST DESCRIBED, FREEDOM OF CHOICE BECOMES NON-EXISTENT. THIS PROVISION OF THE BILL, THEREFORE, QUITE BLUNTLY, MAKES AN EDUCATION SOUGHT IN THE INDEPENDENT SECTOR EVEN MORE ECONOMICALLY DISADVANTAGEOUS THAN IT IS AT PRESENT.

IN THIS CONNECTION, I MIGHT RECOUNT THE TALE OF A CLASSMATE OF MR. CALIFANO AND MYSELF (HOLY CROSS COLLEGE CLASS OF 1952). THIS BOY FROM THE MIDWEST HAD AN EXCELLENT ACADEMIC RECORD IN HIGH SCHOOL, AND WAS TOLD BY HIS FATHER (A HOLY CROSS ALUMNUS HIMSELF), THAT HE COULD ATTEND ANY COLLEGE HE WANTED. DURING THE FALL THEY VISITED PERHAPS 8-10 CAMPUSES; REVIEWED COLLEGE CATALOQUES; ETC. UPON ARRIVING HOME AFTER THE LAST VISIT HIS FATHER REPEATED THE STATEMENT THAT NOW THAT HIS SON HAD REVIEWED ALL THE COLLEGES IN WHICH

HE WAS INTERESTED, HE WAS FREE TO CHOOSE ANY ONE HE WANTED. BUT THEN ADDED: "I'LL PAY THE TUITION AT HOLY CROSS!" THUS FREEDOM OF CHOICE WITHOUT REASONABLE BALANCE IN FINANCIAL ASSISTANCE IS NOT FREEDOM OF CHOICE AT ALL.

FORTUNATELY, THERE IS ALREADY IN PLACE AN INTEGRATED ARRAY OF FEDERAL ASSISTANCE PROGRAMS WHICH ARE DESIGNED TO PROVIDE HELP IN CASES SUCH AS THAT DESCRIBED ABOVE WHERE THERE IS SUBSTANTIAL UNMET NEED. I AM SPEAKING OF THE CAMPUS BASED COLLEGE WORK STUDY GRANTS; GUARANTEED STUDENT LOANS; AND THE SUPPLEMENTARY EDUCATIONAL ASSISTANCE GRANTS. ALL THREE ARE VALUABLE, BUT OF PARTICULAR VALUE FOR MANY STUDENTS IS THE SEOGS PROGRAM. WORK GRANTS ARE NOT ALWAYS APPROPRIATE, ESPECIALLY FOR BEGINNING STUDENTS IN DIFFICULT ACADEMIC PROGRAMS. TOO, WE SHOULD AVOID FORDING STUDENTS TO TAKE OUT LOANS FOR EVERY YEAR OF A FOUR-YEAR UNDERGRADUATE PROGRAM--WITH GRADUATE OR PROFESSIONAL SCHOOL POSSIBLY STILL AHEAD.

SEOGS HAVE SEVERAL DISTINCT ADVANTAGES:

> THEY ENABLE DECISIONS TO BE MADE ON THE LOCAL LEVEL ON AN INDIVIDUAL BASIS. DECISIONS CAN THUS BE MADE WHICH TAKE INTO ACCOUNT THE PARTICULAR FINANCIAL CIRCUMSTANCES OF EACH STUDENT.
>
> THEY ARE BASED UPON A CLEAR DETERMINATION OF NEED BUT WITH SUFFICIENT LEGITIMATE DISCRETION BEING EXERCISED AT THE CAMPUS LEVEL, WHERE THE MOST KNOWLEDGEABLE DECISIONS CAN BE MADE.
>
> THEY CAN ALSO ADDRESS EXTRAORDINARY NEEDS WHICH ARISE THROUGH THE DEATH OF A PARENT; A CRUSHING FAMILY MEDICAL BILL; ETC.
>
> FINALLY, THEY CAN PROVIDE THE NECESSARY BASIS FOR THE EXERCISE OF FREEDOM OF CHOICE.

THE SEOGS PROGRAM IS CURRENTLY FUNDED AT $270 MILLION. IT SHOULD BE IMPROVED TO AT LEAST $350 MILLION AS THE PROGRAM BEST DESIGNED TO MEET THE REAL NEEDS OF MIDDLE INCOME STUDENTS. THIS IS ONLY ONE-HALF THE ESTIMATED COST OF PROVIDING $250 GRANTS TO MIDDLE INCOME FAMILIES--IN MANY INSTANCES WITH NO DEMONSTRATED NEED.

IN CONCLUSION, I WANT TO EMPHASIZE OUR SUPPORT FOR THE MIDDLE INCOME STUDENT ASSISTANCE BILL. WITH RESPECT TO THE BEOGS PROGRAM WE AGREE THAT THE MAXIMUM GRANT FOR LOW INCOME STUDENTS AND THE AVERAGE GRANT FOR STUDENTS WITH INCOMES BETWEEN $8,000 AND $16,000 SHOULD BE INCREASED. WE BELIEVE, HOWEVER, THAT THE APPROACH TO ASSISTANCE FOR THOSE WITH INCOMES FROM $16,000 TO $25,000 WHICH EMPHASIZES "ACROSS THE BOARD" $250 GRANTS IS NOT CONSISTENT WITH TRADITIONAL PRINCIPLES OF STUDENT ASSISTANCE; IS NOT CALCULATED TO DIRECT ASSISTANCE TO THOSE MIDDLE INCOME STUDENTS WITH THE GREATEST NEED.

LASTLY, WE URGE THE SUBCOMMITTEE TO GIVE GREATER ATTENTION THAN DOES THE BILL IN ITS PRESENT FORM TO THE CAMPUS BASED PROGRAMS PARTICULARLY TO THE VALUABLE SEOGS PROGRAM WHICH COULD BETTER MEET MIDDLE INCOME STUDENT NEED THAN ACROSS THE BOARD BEOGS GRANTS.

MR. CHAIRMAN, I THANK YOU FOR THE OPPORTUNITY GIVEN TO ME TODAY TO ADDRESS YOU AND YOUR COLLEAGUES ON THIS VITALLY IMPORTANT MATTER.

STATEMENT OF PAUL J. REISS, EXECUTIVE VICE PRESIDENT, FORDHAM UNIVERSITY, BRONX, N.Y.

Mr. Reiss. Thank you, Mr. Chairman.

I am, as has been noted, Paul Reiss, executive vice president at Fordham University in New York City. Rev. James C. Finlay, the president of the university, wished to address you today, but was unable to arrange his schedule to do so. While I have only attempted to substitute for Father Finlay on a number of occassions in recent years, on the matter before this committee, the Middle Income Student Assistance Act, I might even be able to speak with greater authority and intensity, drawn from personal experience, than could he. Not as executive vice president of a large university, but as the father of a large family with four children currently enrolled in college, I can personally appreciate and attest to the importance of student assistance in postsecondary education. Father Finlay's chosen life style does not permit him this experience. [Laughter.]

It is with particular pleasure also to be able to testify at the request of Congressman Mario Biaggi. We at Fordham rejoice at being represented in Congress and on this important subcommittee by one who has for many years demonstrated concern over the issues facing higher education, and one who has provided thoughtful support for our efforts on behalf of the education of the youth of our city, our State, and Nation. This is certainly also true of Congressman Ford and the other members of this subcommittee.

In Fordham University, its students and their families this subcommittee should be able to perceive in very clear terms the issues and problems involved in the financing of postsecondary education which now face this Nation, as well as the manner in which House Bill 10854 would have an impact upon them. Fordham University has since its founding in 1841 been providing higher education for students coming predominantly from urban working class and middle income families. A large proportion of our 14,000 students come from families where they represent the first generation to attend college. Through the years immigrants and the children of immigrants have constituted a substantial portion of the student body. Following this tradition, students from minority groups—primarily black and Puerto Rican—currently constitute about 18 percent of the student body, a relatively high percentage for an independent college financed primarily by tuition.

Fordham University is proud of its record, its contribution to higher education, and the achievements of its graduates. The last decade, however, has been one of considerable financial difficulty for the university. Even though, we have achieved a measure of some stability in maintaining a balanced budget for the past 8 consecutive years. Balance we must for our reserves are very meager. The long-term maintenance and renovation of our physical plant has consequently suffered, and there is little money for the new and valuable projects which would enrich the education of our students. We are not the wealthy private institutions that are sometimes referred to in conversation.

Through all these financial difficulties the university has maintained a policy of keeping its tuition as low as possible, so as to keep a Fordham education within the means of the working class and middle income students whom we have traditionally enrolled.

Our current tuition of $2,800 for a full-time undergraduate on our Bronx camps, and $2,464 on the campus in Manhattan, are low by standards of comparable independent universities. The student assistance received by our students from Federal and State programs have, of course, assisted families at meeting these costs at Fordham. For this of course we are most grateful.

At the present time, however, Fordham, along with other colleges and universities, is finding that the cost of providing quality higher education is increasing substantially every year. With publicly supported institutions all around us, offering higher education at a mere fraction of the cost to the student attending Fordham we are obviously not totally free to raise our tuition if we wish, as indeed we do, to continue to educate a broad segment of the population in our area.

By the way, I might comment that the higher education price index, which has been developed by the Office of Education, has in fact been going up at the rate of inflation. If tuitions have not been going up at the same rate, it may well be because institutions are attempting—as in our case, with limited resources—to hold tuition in a manner so that the middle-income students will not be seriously or adversely affected. So, I think the argument that because tuitions are not going up, perhaps, as fast on a rational basis, therefore middle-income families are not in serious difficulty, has a fallacy to it.

Who are our students? They are not affluent; in fact, their family incomes are lower than those of the average student attending college from New York State. They are, however, academically able, being academically above the average of college students within the State. Thirty percent of the Fordham undergraduate students receive BEOG's. In addition, the university awards $3 million from its own current funds as financial aid, a figure which represents one-tenth of its tuition revenue.

But the assistance from Federal and State programs and from the university itself is not enough. Most of the students hold part-time jobs, some working too many hours to the detriment of their academic work. About three-quarters of the students who drop out of college do so because they cannot come up with the funds necessary to continue.

Let me read to you a portion of a letter by such a student which was published just 2 weeks ago in our student newspaper, the Ram:

> I am a freshman here at Fordham University, and since my returning to the campus I have become fearful that I may not make it to sophomore status.
>
> I am a full-time student working in my non-educational hours as a messenger for a law firm. Because of family financial problems, ranging from medicine for a parent, program fees for a mentally retarded sister, high mortgage payments, and all the other usual expenses, I have taken this job to help contribute toward my college tuition. When I entered the university I was advised to secure a student loan for each of my four years. Because of this necessity, I, and others, will leave college at least $6,000 in debt. I am not looking forward to this aspect of my future.
>
> Fordham University has given my brother and sister a college education. The same is true for my sister-in-law and my brother-in-law, also a graduate of Fordham Law School. My brother-in-law's father received his master's degree from Rose Hill. I regret that due to this tuition increase, I will not be the sixth member of my family to pass through the golden gates of graduation. I had anticipated attending law school, most probably Fordham, but I now feel that I can only anticipate an incomplete education.

Perhaps the most significant development in the financial aid picture today is the increasing appeals for help which we are receiving from students whose families are in the middle income group. It is clear to us that many families not now being assisted through BEOG's are in desperate need for help; yet, we have not been able to meet their need.

In this situation we at Fordham find that the intent of the Middle Income Student Assistance Act is most timely. It would seek to provide assistance where it is not only needed, but well deserved. We would like to lend our support to such efforts and express our appreciation to the administration and to Congress for their recognition of the importance of immediately addressing this problem.

On the whole we find that the student assistance programs currently in existence provide adequate mechanisms to meet the financial needs of our students. The overall funding level of $5.2 billion may also be sufficient—and this is important—if properly allocated among the several programs. The question of the manner in which funding is allocated among the several programs is, however, most critical. It is here where we would suggest a somewhat different thrust for this legislation.

At this time I would like to direct the subcommittee's attention to the principle of need as the basis of determining financial assistance. Need has been the basis for the student assistance programs to date; programs which have been directed largely to students from the lower income families, and programs which, not incidentally, have enhanced freedom of access to higher education.

The perceived need for assistance to the middle income student has brought forth the bill under consideration today. Yet the principle of need is abandoned in the present bill in the provision for a guarantee of a $250 BEOG's grant per student per year without regard to need. Mr. Califano stated that the BEOG grants estimated at $700 million will go to 2 million middle-income students not previously participating, a guarantee of $250 for each student. If this is in fact the case, $500 million of the $700 million would thus be used up in providing $250 minimum grants.

There is no doubt that any student today could use the $250. But is this the most effective manner in which to allocate the funds which can be made available for student assistance? Is this the approach best designed to meet the most pressing of needs among middle income students today? I think not.

The need for assistance which middle-income families have is dependent upon two major factors. One is the financial resources which the family does, or does not have, using family adjusted income as a starting point, and considering other factors, such as size of family and number in college. We normally calculate, as members of this committee know very well, an expected parental contribution to the total educational cost. We also calculate the total cost itself, which varies according to the rate of tuition being charged. On the basis of this we can determine the need, if any, for assistance which should be met in each instance.

Let me illustrate the problem we perceive with the provision of the present bill guaranteeing $250 without regard to a determination of need. I am addressing myself at this time to the chart on the next page, page 7 in my prepared statement.

A family somewhat typical of the many middle-income families of students attending Fordham would be a family of four with two children attending college, and with a total income of $18,000. A student from such a family might attend Fordham or could, of course, enroll at one of the colleges of the State University of New York or the City University of New York. In each case, a "needs analysis" might indicate an expected parental contribution of $1,270. If attending a low tuition institution, a $250 BEOG's grant with the addition of a State tuition assistance grant, as outlined on that chart, would provide the student with assistance substantially in excess of need.

Yet, if the student attended Fordham, he or she would have a substantial unmet need remaining. In fact, the figures work out to, if attending Fordham, there would be an unmet need of $880; if attending CUNY, the same student, the same family, the same financial resources, would have an $870 in excess of need.

Thus, this portion of the bill will have the effect of undermining rather than furthering freedom of choice of institution in higher education. In addition to freedom of access to higher education one of the underlying principles of our support for higher education has been that of furthering freedom of choice. If we allow the financial support to become so unbalanced as in the not uncommon case which I have just described, freedom of choice becomes nonexistent. This provision of the bill, therefore, quite bluntly, makes an education sought in the independent sector even more economically disadvantageous, relative to that of public institutions, than it is at present.

In this connection, I might recount the tale of a classmate of Mr. Califano and myself (Holy Cross College, class of 1952). This classmate from the Midwest had an excellent academic record in high school and was told by his father—a Holy Cross alumnus himself—that he could attend any college he wanted. During the fall he visited perhaps 8 to 10 campuses, reviewed college catalogs, et cetera. Upon arriving home after the last visit his father repeated the statement, but now that his son had reviewed all the colleges in which he was interested, he was free to choose any one he wanted, but then he added, "I'll pay the tuition at Holy Cross." [Laughter.]

Freedom of choice without reasonable balance in financial assistance is not freedom of choice at all.

Fortunately, there is already in place an integrated array of Federal assistance programs which are designed to provide help in cases such as that described above, where there is a substantial unmet need. I am speaking of the campus-based college work study grants; guaranteed student loans, and the supplementary educational assistance grants—all three are valuable. But of particular value for many students is the SEOG's program. Work grants are not always appropriate, especially for beginning students in difficult academic programs. Too, we should avoid forcing students to take out loans for every year of a 4-year undergraduate program—with graduate or professional school still a possibility ahead of that.

SEOG's has several distinct advantages:

They enable decisions to be made on the local level on an individual basis. Decisions can thus be made which take into account the particular financial circumstances of each student.

They are based upon a clear determination of need, but with sufficient legitimate discretion being exercised at the campus level, where the most knowledgeable decisions can be made.

They can also address extraordinary needs which arise through the death of a parent; a crushing family financial obligation, et cetera.

Finally, they can provide the necessary basis for the exercise of freedom of choice.

The SEOG's program is currently funded at $270 million, perhaps $350 million might be an appropriate target. This is only one-half of the estimated cost of providing $250 grants to middle-income families—in many instances with no demonstrated need.

In conclusion I want to emphasize our support for the middle-income student assistance bill. With respect to the BEOG's program, we agree that the maximum grant for low-income students and the average grant for students with incomes between $8,000 and $16,000 should be increased. We believe, however, that the approach for assistance for those with incomes from $16,000 to $25,000, which emphasizes across-the-board $250 grants, is not consistent with traditional principles of student assistance; it is not calculated to direct assistance to those middle-income students with the greatest need.

Lastly, we urge the subcommittee to give further attention than does the bill in its present form, to the campus-based programs, particularly to the valuable SEOG's program which could better meet middle-income student needs than the across-the-board BEOG's grants.

Mr. Chairman, I thank you for the opportunity given to me today to address you and your colleagues on this vitally important matter.

Mr. Ford. Thank you very much, and thank you particularly for recognizing the dilemma that one always has in trying to develop a Federal program, or a combination of Federal programs, for the fortunately very diverse educational system that exists in this country. The pluralistic system that we have, I am sure, is accepted by all of the members of this committee as a desirable aspect of higher education in this country, which should be supported to the greatest extent possible.

To get back to your question of need and what appears to be a rather arbitrary straight line in the graph of our BEOG's program, I should tell you that, during the drafting stage, we operated at all times with the question of need before us. Representatives of different kinds of institutions with different kinds of constituencies were involved in this drafting, and the preparation of what ultimately became a political compromise—as legislation almost invariably does here.

We determined that families with incomes of up to $25,000 did have a bonafide need. If we had not determined that, it would very soon be determined for us by other committees of Congress with tax credit legislation. So, it is a fact of life with which we must live, no matter what anyone desires.

We further determined that one of the basic problems we had to face in considering alternatives to the very popular tax credit approach was that at the very base of that approach is the weakness that Father Haley testified on. As the President mentioned last week, any tax credit proposal that you look at ultimately ends up taking money from the very poor, or resources from programs for the very poor, and applying these resources to the very rich. This was the fundamental basis for the determination that tax credits, although tempting, were not the right way to do it.

Pursuing that philosophical approach, we determined that any program that moved substantial aid to the middle income should not do so at the expense of or in derogation of the existing programs for low-income students.

There seems to be, within the Education Committee, virtually universal acceptance of the fact that the programs have worked well for low-income students, and provide a reasonable prediction of success in their working for students in progressively higher income levels, given the resources to do so.

A previous witness indicated some preference for the Pell approach to the use of BEOG's, which does in fact distribute more money to people with a family income over $16,000, than does the present provision of the administration bill. But it does so at the expense of the "hump" on the graph that is created between $10,000 and $15,000 by bringing out the level of the BEOG grant on a continually higher basis, and suddenly dropping down to the $250, which is a kind of tradeoff. We could "scoot" that ski jump off a little bit if we took the money that we are advocating be spent as increases in the other campus-based programs and dumped it in the BEOG's. I am afraid we would lose considerable support in the Education Committee for that approach. The committee has already had substantial consistent testimony to the effect that they would like some adjustment in the campus-based programs, particularly a little more emphasis on the SEOG program.

Mr. **Reiss**. Right.

Mr. **Ford**. I am sure, from what I have been able to determine, the committee is viewing that sympathetically and trying to figure ways for adjustments.

We also have a number of suggestions about how to better distribute the money that would be allocated to the increase in BEOG's program, with your concerns in mind.

If in fact that approach is going to succeed as an alternative since the President has made it very clear to us that we cannot have both, a couple of billion in tax credits and a couple billion dollars in other kinds of higher education assistance, we are going to have to stay with some sort of guarantee that it gets out to the $25,000 family with at least perceivable support that the more expensive and less effective but nevertheless attractive proposals for tax credits would offer.

Would you think that problem is serious enough that we should consider leaving the campus-based program at the level of the President's budget, and using the additional $150 million to make the BEOG's distribution more equitable?

Mr. **Reiss**. Well, it is a hard choice to make. Certainly I sympathize with the diverse and sometimes conflicting objectives which the committee is trying to reach. But the campus-based programs, to us, are extremely valuable, and we would not want to encourage any lessening of the amount of money that would be going into those programs.

The people on our campus who are most directly concerned in discussing on a day-by-day basis the financial needs of our students tell me over and over again, these campus-based programs are really a

Godsend, extremely critical in meeting the specific needs of the students that come into their doors every day. If anything, as I have indicated in my testimony, those programs, particularly SEOG, should be increased if at all possible.

So, I cannot say that I would favor the transfer of funds from the campus-based programs to the BEOG program. However, realizing the problems the committee has to face, I would however still encourage the development of a BEOG program for the upper income—middle income, I should say—group, with some greater attention to need, so that the diversity of higher education, which is supported by an existing freedom of choice, will not be undermined by the kind of problem that I pointed out in my testimony.

Mr. **Ford**. Well, of course, the draft proposal that we attempted to finance through the administration was based on a $2 billion increase, and produced a very neat-looking graph with a gradually declining line that started at $1,800 on the BEOG's grant and ran across through $25,000, where it diminished to the $50, as I recall.

That is an about $800 billion cost item, to do it in that fashion. In dealing with BEOG, we have to be constantly conscious of the fact that we could very readily pass a piece of legislation that would authorize $2 billion, and produce the appearance of that kind of equity. But in the event that we were only able to hit the amount of money that we believe we are able to get, we would be in the unhappy situation of reducing the resources for the lower income students in proportion to the reduction in authorized level for the middle-income students.

So, we are forced in terms of that kind of reality into compromises that do not fit in the authorizing legislation, or neatly into anyone's idea, so far as I know, of the way it really ought to be done, given unlimited resources, or even what some of us consider modest increases in resources. When one considers that we are now negotiating at around $1.2 billion, and we started out a year ago with something less than zero, and based on some $700 million into a contingency in the President's budget, it might be said that we compromised down from $2 billion. But the President has compromised up from $700 million to $1.2 billion-plus.

There will be a good deal of discussion, I am sure, about how to adjust the approaches that are in the bill now before us, and any specific suggestions that you want to make will certainly be very helpful to us.

Mr. **Reiss**. I do not have a very specific suggestion, but if I just base some comments on the statement that approximately $700 million would be allocated in the BEOG grant to students from families in the $16,000 to $25,000 category, would it be possible to accept that as a figure which should go to students in that category, so that funds would not be taken from the lower income family groups; and then to consider what would be the most appropriate way of allocating that $700 million among that group of families?

I realize the concerns of the committee, and I realize the $250 figure is not a completely arbitrary figure in this bill. But, nevertheless, I still must maintain the point that I do not believe it is good fundamental policy to approach the matter in that way, from the educational point of view and from the needs point of view.

Mr. **Ford**. Mr. Buchanan?

Mr. **Buchanan**. We have several alternatives in the committee, and one, as you are aware, would be solely tax credit legislation.

Mr. **Reiss**. Yes.

Mr. **Buchanan**. Another, as expressed by the gentleman from Ohio, Mr. Mottl, and the gentleman from Minnesota, Mr. Quie, would be both tax credit and something similar to this bill. And then the viewpoint expressed by the administration and Chairman Ford is to pass this bill in lieu of a tax credit. Which position would you select?

Mr. **Reiss**. Well, with respect to tax credit, one item I can say, that if in fact there were a tax credit bill passed, there would be even greater reason to approach this bill in the way I have suggested. But as far as where you come down on both of them, the tax credit bill is obviously serving other needs and another approach, a completely different approach from this one. I do not see them as alternatives, to pick between the two. This is clearly, in my thinking, the bill before this committee is one which is intentionally directed to meet the needs of higher education, the existing programs, and appropriate levels of funding. I believe that is the appropriate approach. However, if for other reasons a tax credit bill is also desirable, I certainly would not take the position it should be opposed.

Mr. **Ford**. How does that position square with what you have just been saying about the $250 guaranteed grant not having a relationship to need?

Mr. **Reiss**. Well, clearly, the tax credit bill would have the same problem. I mean, there is no question about that.

Mr. **Ford**. Universally.

Mr. **Reiss**. Yes. I certainly would not be suggesting that the tax credit bill would be preferred over the present one, quite clearly the contrary. But if it is a matter of choice, then, I think at this point there is no question but that this bill in its present form—although I have, as I mentioned, a strong disagreement with one provision of it—this bill in its present form is clearly to be preferred, for us.

Mr. **Buchanan**. You did not comment on SSIG per se. Do you have any feeling about that program?

Mr. **Reiss**. Well, I think one reason why perhaps it could be understood that I might not pay a great deal of attention to it is because Fordham being located in New York, the SSIG does not substantially impact scholarship assistance in New York State.

Mr. **Buchanan**. However, there has been proposed to our committee a revision of SSIG programs. Were you here earlier in the room?

Mr. **Reiss**. Yes.

Mr. **Buchanan**. The proposal would establish a rolling base year above a certain level of appropriations in order to stimulate States like New York State to contribute more grant money.

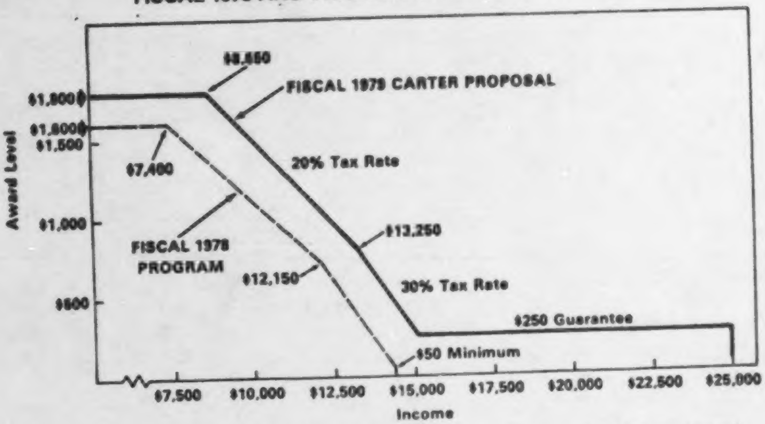
Mr. **Reiss**. Yes. All I can say, I do not know the specifics of what might obviously be proposed, but the principle of stimulating States to provide more assistance is one that clearly I would be in favor of, if it actually resulted in assistance which our students could take advantage of.

Mr. **Buchanan**. Thank you very much. Thank you, Mr. Chairman.

Mr. **Ford**. I would like to observe that we should put this chart in the record at this point, so I can make reference to it. This is the chart showing "Basic Grants Awards by Income Fiscal 1978 and Fiscal 1979."

[The chart follows:]

BASIC GRANTS AWARDS BY INCOME
FISCAL 1978 AND FISCAL 1979 CARTER PROPOSAL



Illustrative of a family of four with one in post secondary education, no unusual expenses, average assets, and cost of attendance of $3,600.

Mr. Ford. Under the Carter proposal the $250 figure is a universal guarantee, it does not just guarantee that students over $15,000 would receive $250; it also guarantees students under $15,000 the $250.

Mr. Reiss. I understand.

Mr. Ford. At the present time a student at about $14,000 receives only a $50 grant. We would go back into the low income student coming from a small family where the family contribution factor dictated a smaller grant than $250. So, the portion of money that you are attributing to the $250 guarantee, a substantial portion of that is guaranteed for students below the $15,000 level, as well as above.

Mr. Reiss. If I can base comments on the statement of Mr. Califano, he indicated—and I am just using those figures; they are the ones I had available to me—he stated that approximately 2 million additional students above the $16,000 level were to be assisted under his and your plan; and that $700 million would be allocated to that portion of the plan. If you multiply 2 million students by $250, you already used up $500 million of the $700 million.

Now, whether those figures are accurate I do not know, my comments are simply based on that statement.

Mr. Ford. I have to say to you in response that I think Mr. Califano's mathematics are slightly off. The statement was prepared rather quickly after the package was agreed to, and upon closer reflection we might be able to show him that the distribution of that additional money with the $250 guarantee is different.

I would like to thank you for placing emphasis on these concerns, and for giving us a chance to put on the record the fact that we share that concern and that the solution is at least more complex than some of the commentators have picked it up to be so far.

Out of my own State I saw one newspaper article where a spokesman for independent colleges said that this program was a ripoff for the community colleges and the public institutions; and a community college spokesman said, "No, that is not the case. It is really a ripoff of the independents at the expense of the community colleges." As a matter of fact, it virtually makes community college education in that State free up to the $25,000 level because of the levels of tuition. Surprisingly enough the community college people were among those who were most reluctant to move with this approach because it is difficult to conceptualize this kind of a change with the way it would be if we simply just added money to the existing program to let it carry itself out to wherever it would seek its own level.

Mr. Biaggi?

Mr. BIAGGI. Thank you, Mr. Chairman.

Thank you, Dr. Reiss, for your testimony. I think we should go back to "square one" and look at the thrust and the purpose of this legislation. We are responding, essentially responding to the needs of the middle-income people of this Nation, who have been very sadly neglected and burdened by taxes and inflation, where on the other hand the poor community in our Nation has had their needs dealt with, at least in some measure.

Bearing that in mind, comments from community colleges in areas of similar concern really miss the thrust and refuse to acknowledge the need of middle-income Americans. As we look at it, the $16,000 to $25,000 income is a sad characterization of what middle income is today, given the tax situation, and the inflationary impact on those dollars. Those sums of money are almost equal to not poor, but low income of yesterday.

First, I think, the question was raised as to need. I think the need is clearly established. With tax tuition, we have another situation, there we have the possibility with individuals with unlimited income being the beneficiaries of that legislation. This legislation targets in, in some measure, certainly more effectively than tax tuition as to needs. In the city of New York, a family earning $16,000, given the tax portion of that, high cost of living, what does that leave the family, especially if they are homeowners where they have the mortgage payments to make, or if they are just tenants, and they have two, three, or four children?

I share Senator Pell's view; I do not believe that $250 is equitable; I really do not think it is enough. It is substantially better than existing conditions, but I simply do not believe it is adequate, and it is not responding to the need of the middle-income family. I daresay, if a survey was made, that the middle-income people would agree that $250 is inadequate, given the $1,800 sum given to the low-income people. My quarrel with that, as comparison, is giving you that point of view.

I do not know what this committee will do in the final analysis. But the thrust, if it is not to be obscured, the purpose here is to deal with the needs of the middle income.

I read the letter that was written. I understand young people wanting to further their education, and Fordham University provides superior education. I do not want to "sugar-coat" you or the president of the school, but I know it does, it always has historically. As this letter says, it is the whole tradition of people going. He says he could go, but it would leave him in debt for $6,000. That does not excite him, it is a rather dismal future.

I will be very frank with you, I am not impressed with his conclusion—I am not impressed. As a matter of fact, his letter tells me he is not that committed to education because he is buying a superior quality education. I would like to help, and that is hopefully what this bill will do.

I think the bill provides a partial answer to the needs with the exception, Mr. Chairman, of the sum of $250. I think you addressed yourself to that, how we could deal with that remains to be seen. That is an area we must look to. I think Senator Pell has expressed similar comments.

Mr. **Ford**. Yes; he has.

Mr. **Biaggi**. Thank you.

Mr. **Reiss**. There is no question in our mind in terms of the experience with our students that there is a need, the need for middle-income families to be assisted is very much there. It is on the basis of that, that we very much support this bill. I do not want my comments about the aspects of the $250 to be taken as a reservation meaning nonsupport of the bill.

Mr. **Ford**. You would like that a little bit better.

Mr. **Reiss**. The reservation is that if you have only the amount of dollars that you have for the middle-income group, is this the best way to allocate them; that is my question, particularly on the basis of the fact that need is not only determined by level of family income and resources, but by the cost of education that the individual student is facing, which varies rather tremendously. That is the thrust of my concern about this bill.

Mr. **Ford**. In that context, what is the thrust then of lifting the limits on the guaranteed student loan, so that for the first time the family, the typical Fordham family will be eligible for each and every member of the family to have the full limit of the subsidized student loan?

Mr. **Reiss**. Well, that certainly would assist such families.

Mr. **Ford**. Now, they have nothing.

Mr. **Reiss**. Right.

Mr. **Ford**. The family does not qualify.

Mr. **Reiss**. That is right.

Mr. **Ford**. For either the $250, or the student loan.

Mr. **Reiss**. Right.

Mr. **Ford**. We are going to qualify them—be it an inadequate amount against the cost of tuition—for $250, plus access to the student loans in the same way that everybody else has access to.

Mr. **Reiss**. Yes.

Mr. **Ford**. Is that not a significant improvement?

Mr. **Reiss**. It certainly is a significant improvement of that program, and I cannot imagine its not assisting quite a number of the families that send students to Fordham.

Mr. **Buchanan**. Would the gentleman yield briefly? I think, as the chairman has indicated, there is something to your reservation in trying to fairly deal with such a problem. I think what you portray could be made worse if the appropriations would not equal the level of the authorizations. One of my great personal concerns is that we will not obtain full funding of what we authorized. I think that might create an even stronger case for us to make some revisions.

Mr. Reiss. Yes.

Mr. Buchanan. I believe your situation would be worsened if you do not get the level of funding proposed in the bill.

Mr. Reiss. That is correct.

Mr. Buchanan. Thank you.

Mr. Ford. Thank you very much.

Mr. Reiss. Thank you.

Mr. Ford. Now, Dr. B. A. Forrester, president of Enterprise State Junior College in Alabama, and he is accompanied this morning by our colleague and friend, Representative Bill Dickinson. He is here this morning at the invitation of Representative Dickinson and the ranking member of the committee, Representative John Buchanan.

Mr. Dickinson. Thank you very much, Mr. Chairman. I appreciate the opportunity to introduce Dr. B. A. Forrester, president of Enterprise State Junior College. Dr. Forrester and I have discussed on several occasions our Federal aid programs for education and he has very strong feelings as to the direction that our grant and loan programs should take growing out of his personal experience.

By way of background, Dr. Forrester has 5 years experience as an elementary school principal; 5 years a junior high school principal; 5 years senior high school principal; 5 years superintendent of education; 2 years assistant State superintendent of education, and since 1965 president of the Enterprise State Junior College.

He is a man, I know, who has great insight into the problems of education. He has done a tremendous job with our junior college there in Enterprise. If I can get a couple of licks in before Dr. Forrester starts, he and I and others who are knowledgeable in the field—feel that the best thing you can do for a young person is to give him an opportunity to earn his way, rather than to make him a gift that he may, or may not appreciate.

Dr. Forrester will present statistics to back up the difference between the work study program and the basic grant program. But, if I might elaborate on what has been said previously, I believe that whether we are talking about middle income—and I do not know what "middle income" is anymore—I assume that I am above middle income. But, I have three children in college, and I do not care what your income is, unless you are really wealthy, you can get bent out of shape by putting three kids through college at the same time. I do not worry about them having a debt when they get out, if they have to borrow money to go to school. That is all right, if they want it, let them pay for it. What is the difference between their owing and my owing? I would rather they owe it, you know.

[Laughter.]

Mr. Dickinson. So, if it is $5,000, or $10,000 a year—I think it would be less than $10,000—I think if a kid is dedicated and interested in getting an education, one the greatest things that the Government can do is to give him the opportunity to borrow what he needs—even if I have to back it up. But, let him go ahead and borrow it, rather than give him a grant, or a handout, so that he feels he is not responsible, that he does not owe anything, and is not obligated to pay anything back when he finishes college. I think the different concept there is important.

So, for that reason I have asked for permission for the doctor to come up, to discuss his experience on what has been proven in the school system as to which way we should go, and how the recipients and the taxpayers are benefited, as well as the school itself. He speaks from a wealth of experience, and I appreciate the opportunity that you are giving Dr. Forrester to speak to you today. Thank you very much.

Mr. FORD. Thank you very much. Mr. Buchanan?

Mr. BUCHANAN. Thank you, Mr. Chairman. I would like to join in welcoming Dr. Forrester and thank our colleague for setting up this opportunity for us to hear his testimony and profit from it. Obviously, Doctor, I think you are well represented in the Congress. I appreciate Bill Dickinson's contribution and look forward to hearing you.

Mr. FORD. Thank you. Doctor Forrester, your statement will be made part of the record at this point, and you may highlight it, add to it, or proceed in any way convenient.

[The statement of B. A. Forrester follows:]

TESTIMONY OF B. A. FORRESTER, PRESIDENT, ENTERPRISE STATE JUNIOR COLLEGE

THE CONGRESS HAS WORKED OUT A GOOD COMPREHENSIVE PROGRAM OF FINANCIAL AID WITH BASIC EDUCATIONAL OPPORTUNITY GRANTS, THE COLLEGE WORK-STUDY PROGRAM, NATIONAL DEFENSE STUDENT LOANS, GUARANTEED STUDENT LOANS, AND SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS. I AM GLAD THAT THERE IS INTEREST IN INCREASING THE APPROPRIATIONS FOR STUDENT AID, ESPECIALLY FOR MIDDLE-INCOME FAMILIES. TRADITIONALLY, MIDDLE INCOME FAMILIES HAVE BORNE THE BULK OF TAX RESPONSIBILITY IN THIS COUNTRY, AND THESE ARE THE SAME FAMILIES THAT BELIEVE STRONGLY IN THE WORK ETHIC.

MY BASIC POSITION IS THAT IN LIEU OF INCREASING BASIC EDUCATIONAL OPPORTUNITY GRANTS AND PROVIDING MIDDLE INCOME STUDENTS WITH A GUARANTEED $250 GRANT AS THE ADMINISTRATION HAS RECOMMENDED, THE CONGRESS SHOULD USE THE FUNDS REQUIRED FOR THESE EFFORTS TO INCREASE FURTHER THE APPROPRIATION FOR THE COLLEGE WORK-STUDY PROGRAM. THERE ARE TWO MAJOR REASONS FOR MY POSITION.

1. LIKE THE OTHER STUDENT AID PROGRAMS, COLLEGE WORK-STUDY PROVIDES MONEY TO HELP STUDENTS DEFRAY THE RISING COSTS OF EDUCATION.
2. UNLIKE THE OTHER STUDENT AID PROGRAMS, COLLEGE WORK-STUDY GIVES STUDENTS MUCH MORE THAN MONEY. IN THIS TIME OF HIGH UNEMPLOYMENT AND ESPECIALLY YOUTH UNEMPLOYMENT, THE FEDERAL GOVERNMENT NEEDS TO USE ALL POSSIBLE MECHANISMS TO HELP YOUNG PEOPLE OBTAIN JOBS, AND THE COLLEGE WORK-STUDY PROGRAM IS IDEALLY DESIGNED FOR THIS PURPOSE.
   a. THROUGH CWSP, STUDENTS ARE INTRODUCED TO THE WORLD OF WORK, LEARNING APPROPRIATE JOB BEHAVIOR AND ATTITUDES BEFORE THEY LEAVE COLLEGE.

b. THROUGH CWSP, STUDENTS GAIN VALUABLE WORK EXPERIENCE WHICH IS OFTEN HELPFUL IN OBTAINING JOBS. IN OUR COLLEGE ALONE, WE HAVE SIX FULL-TIME EMPLOYEES WHO WERE ON THE WORK-STUDY PROGRAM WHILE THEY WERE IN SCHOOL. IT WAS THEIR DEMONSTRATED COMPETENCE THAT LED TO THEIR EMPLOYMENT. (OTHER EXAMPLES OF VALUABLE EXPERIENCE - CHILD STUDY LABORATORY, BOOKSTORE, SECRETARIAL, BUSINESS OFFICE, FOOD SERVICE.)

c. THROUGH CWSP, STUDENTS WORK FOR SUPERVISORS WHO PROVIDE JOB REFERENCES TO HELP THEM GET A JOB. RECENTLY, A SUPERVISOR IN A MAJOR HOSPITAL IN BIRMINGHAM CALLED ONE OF OUR WORK-STUDY SUPERVISORS FOR A REFERENCE ON A STUDENT WHO WAS BEING CONSIDERED FOR A KEY JOB IN PUBLIC RELATIONS. HE HAD NARROWED THE SELECTION PROCESS DOWN TO THREE YOUNG PEOPLE, ALL OF WHOM WERE EQUALLY QUALIFIED ON PAPER. HE EMPLOYED OUR FORMER STUDENT ON THE BASIS OF A VERY STRONG PERSONAL RECOMMENDATION FROM A SUPERVISOR WHO HAD WORKED CLOSELY WITH THE STUDENT IN A JOB SITUATION.

d. THROUGH CWSP, STUDENTS HAVE THE ONLY OPPORUTNITY FOR ON-CAMPUS EMPLOYMENT SINCE WE HAVE NO INSTITUTIONAL FUNDS TO SUPPORT STUDENT JOBS EXCEPT FOR THE CWSP MATCHING FUNDS.

e. THROUGH CWSP, STUDENTS LEARN MORE ABOUT THEIR ACADEMIC FIELD SINCE TO THE EXTENT POSSIBLE THEY ARE PLACED IN JOBS RELATING TO THEIR MAJOR FIELD OF STUDY.

f. THROUGH OFF-CAMPUS CWSP, STUDENTS ARE INTRODUCED TO NON-PROFIT ORGANIZATIONS, INCLUDING LOCAL, STATE, AND FEDERAL

AGENCIES WHERE THEY LEARN ABOUT OUR SYSTEM OF GOVERNMENT AND WHERE THEY MAY LATER DESIRE FULL-TIME EMPLOYMENT.

THE BASIC GRANT PROGRAM IS OBVIOUSLY NEEDED. IT PROVIDES MANY STUDENTS WITH THEIR ONLY OPPORTUNITY TO PURSUE POSTSECONDARY EDUCATION. HOWEVER, THE PRESENT LEVEL OF $1600 IS ADEQUATE TO DEFRAY THE COSTS OF EDUCATION IF THE STUDENT IS GIVEN A COMPLETE FINANCIAL AID PACKAGE CONSISTING OF WORK, GRANTS, AND LOANS. THE PROPOSED $200 INCREASE AS WELL AS THE $250 GRANT FOR MIDDLE INCOME STUDENTS WOULD BE BETTER SPENT ON THE COLLEGE WORK-STUDY PROGRAM FOR THE REASONS I HAVE MENTIONED.

ENTERPRISE STATE JUNIOR COLLEGE

ENTERPRISE, ALABAMA

YEAR	WORK-STUDY STUDENTS	BASIC GRANT RECIPIENTS
1973-74	103	50
1974-75	103	114
1975-76	139	246
1976-77	162	297
1977-78	165	350

STATEMENT OF B. A. FORRESTER, PRESIDENT, ENTERPRISE STATE JUNIOR COLLEGE, ALABAMA

Mr. FORRESTER. Thank you very much, I appreciate this introduction from Congressman Dickinson, Chairman Ford, Committee Member Buchanan and other distinguished members of this committee. I am sorry they are not here to hear what I have to say——

[Laughter.]

Mr. FORRESTER. I came all the way from Alabama to speak to this group. Sir, maybe you can tell them the things I am about to say.

I have been closely connected with helping students get a college education since 1952 when I began as a high school principal, and since that time as a high school principal, small city superintendent, and for the past 13 years as president of Enterprise State Junior College.

Enterprise State is one of the 20 State junior colleges created in 1963 by Gov. George Wallace, with opposition from all the educators in the State, and most of the legislators, particularly those from around Birmingham, Mr. Buchanan.

[Laughter.]

Mr. FORRESTER. But the program was created, and we do have a fine program now. We have student financial aid. I also speak from one other vantage point: I, too, have four children, the last of whom is a senior in college now. My first one entered in 1962. I am now completing 15 years of having children in college, and none of them has ever qualified for this Federal assistance. However, I have been in the low, low middle-income group—just high enough not to qualify for Federal assistance. Evidently it has not been all that bad because with their working they have been able to get through. My fourth one is working 10 hours a week—not on a Federal program, but at the college she is attending. Montevallos has a work-study program of its own where she earns $20 a week.

Therefore, all four of my children have worked, and of course, I have worked all my life, and my parents have worked. I have helped many fine students even before 1952, some 7 or 8 years before the National Education Act was passed in 1957 or 1958. I have helped many students attend the university, helped them get jobs for their room and board, and scholarships for the fees. Those students worked 4 hours a day, 7 days a week, for a total of 28 hours per week, and it did not hurt them academically. This old saying that students cannot work 3 or 4 hours a day and go to school, regardless of the program they enter, is just not true. If they do not work, they waste a lot of time anyway. But this whole idea that a freshman cannot work part time is just not true. I have observed it, and if we had the research, I think it would show that students who work part time make better grades and are more respected than those who do not work at all.

I am speaking about Alabama; I do not know a lot about the other States. I am not an authority on anything, but being in education all my life, I know something about the people from Alabama.

My daughter attends the University of Montevallo and is one of the most respected students there. Most of them, I guess, could be considered the lower middle-income group. The most respected students are those who work. She said most of her friends would like to be able to work, just as she does. I talked to her about this $250 grant, and she states she is not interested in that; instead, she wants an opportunity to work for what she gets. This reaction would have been true of all my children. And I believe that response would be true of most middle-income people in Alabama that this bill might help.

Now, the point I wish to make today is that the number of students receiving basic grants is increasing, while the proportionate number of students receiving work-study aid is decreasing. To begin with, to get a basic grant, the student had to match it with work-study or NDSL loan. But now they do not have to do that; they just get the basic grant, and we therefore have trouble getting people to work.

Our tuition is $202.50 for 9 months. Obviously, that amount is not prohibitive. In our State, the junior colleges have been financed by the Special Education Trust Fund, and for the past several years by what some call a surplus. Educators call it an unappropriated balance. But anyway, we have been able to get money out of that fund to keep the tuition low; therefore, we have maintained this low tuition for 10 years.

We see a need for this middle-income group to work, to have an opportunity to work for the money. Instead of adding two more million people—2 million from the middle-income group that knows how to work, that was raised to work—to the grant program, I propose that this number be given the opportunity to work. I have taught my children to work. I do not believe that the middle-income people—the people that are paying the taxes that just about furnish all the welfare programs in this country—want a handout. I think it would be the worst thing you could do to give the middle-income group $250 a year outright, with no strings attached. I would say, increase the provisions for them to make a loan at low interest or increase the amount for work-study. All the colleges in Alabama could use all the work-study they could get, and so many fine things accrue from that, in addition to the academic work.

This morning when I started to check out from the motel where I ate breakfast, the manager called somebody that was working there. I could not tell who it was, but evidently it was a young person that was employed. He had not come to work this morning—it was an hour or two later. He had not called in. After a lot of persuasion, I believe he told the manager that he was sick that day, but that hopefully he would be back the next day.

The work-study students in our college who are unable to come to school call the office where they work, whoever they work for—the bookstore, the snack bar, the maintenance office—and tell them, "I am sick today; I will not be able to report to work." I think that this is good.

I am not going to take much more time of this committee, but I would like to see the trend toward work-study. I think that would be good for everybody, particularly the students and the taxpayers and the Congress. Let us change that trend from the grant to the work-study.

This change will not be easy. The path of the least resistance is just to hop on this grant as a means of expedience and get something done this time. Then, next year, it will be $4 million from the million grant, and then an increase from that. After giving the middle-income group handouts for a long period of time, they will quit working, too.

We have a developing campus. We try to get students to work, and they say, "No; I get by adequately on the grant." These students here that do not work, 185 of them (if you will notice on the handout) could very well work; they just do not want to work. Rather, they want to waste time around the campus. Therefore, they spend 3 or 4 hours on the campus doing nothing when they could be working.

As a result of my experience with students receiving grants and with those working, I urge you to consider carefully the merits of the work-study program. I know a lot of philosophers that do not like what I am about to say. Some of them, Chairman Ford, are those you know. For example, a young fellow from Michigan that is with AACJC just wants to increase this grant program. But I contend that this is a handout; it is a giveaway program any way you look at it. Now, it does some people some good. We have a few people that need this grant, people that could not work very much. In other words, we have some adult women who work all day as domestics. They barely make enough to live on, and they want to come to school at night. I think that it is good to help them; they are trying to rise above the domestic job they have. Education is their only way out of this situation.

But I think it would be detrimental to our middle-income people to give them this grant instead of providing some opportunity to work, for the work ethic creates self-respect, dignity, and self-reliance. I just think that this business of work is the only way to build character. But unfortunately a youngster does not have that much opportunity to work today; most large families are liabilities, whereas in the past they provided a much-needed work force. Concerning middle-income groups, I think we ought to talk about the take-home money, not the maximum salary. A person can make $25,000 and take home very little, when everything is deducted.

My plea to the Congress and to this committee is that we do not go the path of the least resistance. Some of the colleges would just rather give the money to students. It is a little trouble to supervise these people at work, but this supervision is worth all the effort it takes. And, suppose a student works and takes 5 years to finish college? In fact, he will come nearer finishing in 4 years if he works than if he does not work, for he fails to budget his time properly; he does not discipline himself very well. And if these youngsters have to work, they may not have as much time to adjust to the social life. But they will not be the losers; they probably will spend their time adjusting to the academic life.

I am all for helping the middle-income group to help themselves, just as I am for the lower income group. I do not believe in cutting this work out and handing the money to them. Based, as Congressman Dickinson said, on my experience for 40 years in education, I do not really believe the middle-income group will think too highly of a $250 handout. I read Secretary Califano's proposal here, and I cannot tell whether that $250 is for a year, a quarter, or a semester; I really do not know what it is.

But anyway, this is my statement. This is my plea to you. Are there any questions?

Mr. FORD. Thank you. I take it from what you said then that a program that gave every family at whatever income level $250 per child as long as the child was in college would even be more objectionable than a combination of grants and work-study, and student loans?

Mr. **Forrester.** Very definitely. It would be more objectionable to me than even the tax credit because if the family gets a tax credit, that is a little different. They have certainly done something to earn the tax credit; they have definitely worked to make some money. I think it is better to give it to the family than just to give it to the youngster right off.

Mr. **Ford.** Thank you very much. Mr. Buchanan?

Mr. **Buchanan.** Thank you, Mr. Chairman.

I want to thank you, Dr. Forrester, for your testimony. It makes a good deal of sense to me. My father had the same outlook that you did. He worked his way through college, and he said it would not hurt me if I did the same. So, with a little help from the GI bill, which I already earned, I followed his recommendation.

Mr. **Forrester.** I had that, too, but I spent enough time with Patton that I did not think it was a handout. [Laughter.]

Mr. **Buchanan.** I found the work constructive. Part of my work in graduate school was in a psychiatric clinic—before they invented tranquilizers. That has been very helpful to me here in Congress. [Laughter.]

Mr. **Ford.** It was not all that big a change in the environment. [Laughter.]

Mr. **Buchanan.** You do, I gather, feel that it is possible to find adequate jobs to expand the work-study program?

Mr. **Forrester.** Congressman Buchanan, the competition for students now is such that jobs could and would be found in the community and around the college. These newer colleges need work-study to help develop the campus; the older colleges need work-study to help clean them up and keep them clean.

Mr. **Buchanan.** Do you also approve of the loan program?

Mr. **Forrester.** I would. If we could not get enough money to let them work for what they get, I would recommend expanding the loan program.

Mr. **Buchanan.** Then you would propose to continue the grant program for those students you described. There is a growing college population of people over 21.

Mr. **Forrester.** We would like to have some of that for unusual circumstances.

Mr. **Buchanan.** Thank you very much. I appreciate your testimony.

Mr. **Ford.** I would like to observe that the President's budget for this year increased the work-study appropriation by $15 million. This bill, in its present form, would increase work-study by another $150 million. In the process of dealing with this bill over the last few months, we have discovered that one of the problems with work-study is that numerous institutions are turning work-study money back. The turn-around time in administering that money is so long that the money they turn back does not end up getting back to you; it ends up going back to the Treasury.

Mr. **Forrester.** If this is all they could get, they would not turn it back; they would find a place to use it.

Mr. **Ford**. Well, what we are working on in the immediate future, you should be aware of, is the administration of the program. If somebody does not want the work-study and you could use it, it would be turned back and go out to you.

Mr. **Forrester**. Some will not use it because they are following the path of the least resistance. The least troublesome program is just to give the kid a check and forget it. But I do not think that is the best.

Mr. **Buchanan**. May I just ask one more question? I am sure you understand, as a matter of practical policy, the reason for the proposed $250 grant minimum, regardless of income range, was in response to various proposals before the Congress to provide a $250 tax credit across the board, again regardless of income.

Mr. **Forrester**. That is the expedience I am talking about; that is one way to handle it.

Mr. **Buchanan**. Would you comment on the tax credit?

Mr. **Forrester**. Well, as I see it, I would first like to see the amount in the work-study program for the middle-income group; and second, a combination of the work-study and the loan. And if it could not be done that way, to go to the tax credit.

Mr. **Buchanan**. Thank you.

Mr. **Dickinson**. Mr. Chairman, let me thank you for this opportunity to speak. And, let me add one other point that perhaps the doctor has not emphasized as much as he should, that I consider valid.

When you have both programs going, you have a grant on one side and work-study on the other. Depending on the background and the experience of the individual, it is very natural for a kid to say, "Well, why should I go the work-study route and work, instead of going over here and getting a 'freebie'? Why do I have to work for my money, and this guy over here, who rooms down the hall from me, or is a friend of mine gets his free and does not have to pay anything back?"

As you can see, it creates a problem. If everybody were fed out of the same spoon, so to speak, I think it would be better. You are not going to get both programs working successfully if one has to work for what he gets, and the other one gets a free ride. I think there is a built-in inequity there that must be dealt with.

Mr. **Forrester**. Congressman, I agree with you. The student who works and thinks he is being mistreated will actually be extremely fortunate in the long run.

Mr. **Ford**. Thank you.

Mr. **Forrester**. I do appreciate what the Congress is facing, and I want to thank them for their interest in this program. Hearing these people here today before this committee, I see it is a great problem to satisfy everybody.

Mr. **Ford**. Thank you very much. The committee will stand in recess until 9:30 tomorrow morning.

[Whereupon, at 12:20 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Thursday, February 23, 1978.]

MIDDLE INCOME STUDENT ASSISTANCE ACT

THURSDAY, FEBRUARY 23, 1978

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:50 a.m. in room 2261, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Mottl, Cornell, Buchanan, Erlenborn and Quie.

Staff present: Thomas R. Jolly, subcommittee counsel; William Gaul, committee associate counsel; Patricia F. Rissler, clerk-legislative associate; and Christopher T. Cross, minority staff director.

Mr. Ford. The committee will be in order.

The committee is meeting this morning to conclude the hearings on H.R. 10854, the Middle-Income Student Assistance Act.

Our first witness this morning is our colleague, Hon. John Wydler, who serves as cochairman of the House Suburban Caucus. John, it is a pleasure to have you here. I must admit I was surprised when I saw you here this morning, surprised and also very pleased, as I am sure my colleagues are.

We have your statement. Without objection, the statement submitted by Representative Wydler will be printed in full at this point in the record, and you may proceed to add to it, or handle it in any way you wish.

[The statement of Hon. John Wydler follows:]

Testimony of John W. Wydler, U.S. Representative, 5th District, New York

Mr. Chairman, it is a pleasure to testify before you today, both in my own representative capacity and as cochairman of the House Suburban Caucus. Our bipartisan caucus sees H.R. 10855 as only a stopgap measure, but a welcome one nonetheless.

In the 1960s, Congress reaffirmed its commitment to making educational opportunities available to everyone. Congress devised programs in an attempt to assure that all qualified individuals could benefit from a college educational experience regardless of their own personal financial resources. Grants were provided for families who could not afford the cost of their children's higher education. That program, referred to as the Basic Educational Opportunity Grants, has had some measure of success in increasing access to post-secondary education.

The funds provided to the poor, through Basic and Supplemental Educational Opportunity Grants, Work/Study Programs and Guaranteed Student Loans, have succeeded in substantially increasing enrollment of lower income individuals in higher educational facilities. I applaud Congress and HEW for making this possible and hope these programs remain so remarkably successful.

However, the country is now rapidly approaching a situation where only the very affluent and the very poor are able to attend college. The spiraling costs of higher education are becoming too much for the middle income family to bear. Eventually all such families must come to terms with a terrible choice: to assist their children in their pursuit of a college education and make the concomitant extraordinary sacrifices, such as selling their home or cashing in a pension, or, on the other hand, to discontinue all educational and other support, thus beggaring the student sufficiently to qualify for assistance.

The House Budget Committee confirmed that higher education is becoming the exclusive province of the very rich and the very poor when it reported[1] in November 1977 that enrollment of children from families earning between $10,000 and $15,000 had declined 16% since 1969. Other income groups showed a lower enrollment drop.

During the past ten years, the cost of higher education has accelerated at an alarming rate. Today, the average annual cost of public university is almost $3,000 and the cost of attending a private institution is anywhere between $5,000 and $7,000 per year. This hurts! The middle income family is hard-pressed to meet these costs for even one child. It is not surprising that many have become resentful of individuals "fortunate" enough to qualify for assistance programs to which the middle class have no access. Imagine just how magnified the cash-flow problem becomes for a family trying to register several of his children at the same time.

My constituent from Rockville Centre has written me regarding tax credits for college tuition: "I remember a whole bunch of years ago when I had three kids in college that Senator Abraham Ribicoff made a valiant effort to get such legislation through Congress and if my memory serves me correctly, he failed by one vote in the Senate. I also believe that passage in the House at that time would have no problem.

"All three of my kids went to private colleges and in addition to paying heavy tuition payments for what I consider to have been a good education, I have been saddled with all kinds of taxes, both on a County and State level to run various community and State colleges.

"In other words, my taxes are being used to support higher education and to the extent that I or anybody else may elect to send his children to private colleges, it is required that we additionally pay taxes on the amount of money that is required for the children's tuition and other expenses at college. It just really does not make sense. . . .

"I think our private institutions of higher learning have been a substantial background to our country since its inception. I am fearful that these colleges will be severely decimated in the next decade if we do not find means to help finance the tuition of those youths desirous of such an education."

Obviously, the enactment of H.R. 10855 will help, but I fear it will not help enough to make a significant impact on educational opportunities for middle-class students. I would recommend for improvements which I understand that my good friend and colleague, Ron Mottl, who is the other co-chairman of the Suburban Caucus, will offer in subcommittee markup. First of all, the income limits for grants should be raised to $30,000, a more reasonable "middle income" figure, considering the inflation which has caused this whole mess. Second, the principal amount for which Federal loan guarantees are available, both per year and total outstanding should be increased to a more reasonable figure. Third, all the various limits should be indexed annually to reflect changes in the Consumer Price Index, thus maintaining the effectiveness of the program regardless of future inflation and obviating the need to waste your committee's valuable time, and that of the full House, on fighting this battle anew, year after year. Finally, due to the dismal job market, loan guarantee recipients should be given two years after graduation to start paying off the loan. This will result in a lower burden, fewer defaults, and lower overall cost to the taxpayer. I strongly urge your support for the amendments of the gentleman from Ohio.

Even then, I must emphasize what I said at the outset: this package is a stopgap measure at best. The most effective means of putting a given amount of assistance into middle income hands is through a tax credit, such as that proposed by Senator Roth. This could be modified to provide a cash payment to those whose tax liability is less than the credit. The tax credit would be virtually free of administrative costs, thus ensuring that nearly every dollar will go to help students with their education, rather than pay for more bureaucrats. I would like to see, eventually, a reasonable tax credit combined with a loan guarantee which covered the full amount of otherwise unmeetable expenses. In the meantime, your bill is most welcome and I urge its prompt reporting to Full Committee. I would hope, too, that your eventual report to the House would put the Education and Labor Committee on record as recognizing the need for a tax credit for higher education.

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[1] College and Tuition Tax Credit, Nov. 1977, Committee Print 95–12.

Thank you, Mr. Chairman.

STATEMENT OF HON. JOHN W. WYDLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. WYDLER. Mr. Chairman, I will place the statement in the record and just add some other comments to it. I am pleased to be here, and of course I am testifying not only as a Member of the Congress, but as a cochairman with one of the members of the committee, Congressman Mottl, of the House Suburban Caucus, a new, very active, and growing body of the Members of the House who are most interested in seeing that in the rush to recognize the problems and rights of people in the urban and rural areas of our country, we do not overlook the people who live in the largest and fastest growing parts of our country, the suburban areas. That is one of the reasons I came here today, to make sure that the interests of those people are considered by this committee, and that their views are known by the members of this committee in drawing up this legislation, and considering other aspects of the problems of financing college education of the middle class of our country.

I am also here, really, in a third capacity, and that is the capacity of a father whose son is about to graduate from high school this June and start college next fall. I am blessed to the extent that my son is a very good student, has a good extracurricular background in school, and can choose to go to practically any college he wishes. He told me he wanted to go to an Ivy League college—which I was glad to hear. He also told me he wanted to go to a college where he could ski. As a result of that, he came up with the choice of Dartmouth College, and he has been accepted there.

Now, what I found out when he was accepted at Dartmouth was that university education is going to cost me at least, for starters, about $7,500 a year for his tuition, his room, and his board. Of course, we all know that number is likely to increase by next fall, and probably every fall thereafter as he goes through his education.

He is the first of my three children; the other two are going to come along, two daughters; and I presume they are going to also want to go to college.

So, I am well aware of the problems that face the middle-income people of this country who are going to have to pay, and pay dearly, for the college educations of their children.

So, in those three capacities I appear here today, and I make no excuse for the fact that I am all in favor of giving additional help to middle-class Americans. I am basically in support of the efforts you are making here to increase the help that is being given under existing programs; but I do not want that to be taken in any way as an endorsement of any attempt on the part of this committee, or any part of the Congress, to use it as a device to avoid getting to a vote on the issue of tuition tax credits. I am convinced there is overwhelming support for that concept in both the Senate and in the House, and any vote will prove it, if taken on that issue. I do not think it is legislatively wise to try to use this legislation as the means of avoiding a vote on that legislation. I think it should be allowed to come to a vote and the vote taken. I am willing to abide by the results of the vote, although I am personally convinced that the vote will be overwhelmingly—in both bodies—in favor of the proposed tuition tax credit.

I think of that as an addition, a vital addition to the present programs. Frankly, if we were starting from scratch, that is where we should start and add these programs to that. However, we already have these programs, so we have to look on the tax credits now, as the additional effort that should be made on the part of the middle-income taxpayers of our country.

Now, I am going to suggest—and Congressman Mottl and I have discussed this—that in addition to the provisions of the legislation that you are proposing here, some amendments be made to that legislation. I have outlined four of them that I am recommending to you.

First of all, the income limits for grants, in my judgment, should be raised to $30,000, which I consider a more reasonable middle-income figure. You know, that sounds like a lot of money when you first hear it, but when you consider what the costs involved are, it does not sound like a great deal at all. For example, if you take a man that has a $30,000 income, take off his taxes and his living expenses, he probably does not have much left. You take the fact that he may want to send one of his children to a first-class university and get into any kind of situation where I find myself, of paying $7,500 a year. If he has two children in college, more than half of his real income would be going for that purpose. So, it is not a high figure, not in view of the high figures we have to deal with in higher education today. I think it is very reasonable figure under the circumstances, and I recommend that to you.

Second, I recommend that the principal amount for which Federal loan guarantees are available—both per year and the total outstanding—should be increased for exactly the same reasons that I have stated.

Third, that all various limits should be indexed annually to reflect changes in the Consumer Price Index because we know darned well that all of the costs of university education are being treated in exactly that fashion by the universities, they simply increase their costs per year as the costs of their goods and services increase. So that would just be keeping us where we are when we pass this legislation.

And finally I suggest that the loan guarantee recipients be given a 2-year grace period after graduation to start paying off their loans. Now, in doing that I want to make clear that I do not think in any way we should cut down on our efforts to make positive that these loans that are made by our Federal Government are repaid. I think they should be, and I think our efforts in that regard should be increased substantially. I have taken that attitude and that position before the Government Operations Committee, where we have had some extensive testimony on the breakdown in the system. These programs are very poorly run, very laxly run, and a great many people are getting away with murder, to put it bluntly, in repaying their student loans. There is no reason that should be allowed, and I do not want to give the impression, in asking for a grace period, that default be allowed in the future—quite the contrary. I think that the obligations that are undertaken should be fulfilled, and the Government has a very serious obligation to the taxpaying public to see that they are. In all these cases—except the rarest—they can be repaid if we pass the necessary legislation and the agencies will take the necessary action to collect the funds that are due.

Mr. Chairman, that, I think, summarizes the additional remarks I make in addition to the statement I offered for the record. I thank the chairman for his attention.

Mr. **Mottl**. Mr. Chairman?

Mr. **Ford**. Yes, Mr. Mottl.

Mr. **Mottl**. Mr. Chairman, I would just like to thank the gentleman from New York for his eloquence in presenting on behalf of himself and the Suburban Caucus our proposed amendments that we will be offering on Tuesday in the markup of this legislation. We think they are all constructive amendments that would be very helpful to the average-income people of this country.

I would like to compliment the gentleman for his fine statment.

I think one of the main reasons we came into existence, the Suburban Caucus—and I attested that yesterday to the spokesman for the Carnegie Council in her testimony—is that we have seen that the wealthy people can afford to go to college and the poor people can afford to go to college through various Government programs, but the average-income Americans—I put an arbitrary limit from, say, $10,000 to $35,000 a year—have a very difficult time sending their chindren to higher educational institutions, especially private institutions.

One of the main reasons we banded together, and we now have 41 members of the Suburban Caucus, is wanting to see that an income tax cut be allowed for those people that are average-income people, that they get a better equity of the distribution of the Federal dollar that they have not gotten in the past because they have been lumped in with urban centers. There are about 108 million people now residing in suburban communities, and they send $3 to Washington and get $1 back; where the urban centers send $1 to Washington and get $3 back. We have been lumped in with the urban centers and have not been able to get our fair share of the distribution of Federal funds. One of the big difficulties we perceive, suburban Congressmen, people from our districts are coming to us every week saying, "Can you give us a helping hand to get some financial aid for our sons and daughters that would like to go to institutions of higher learning?"

They have told us on many occasions that because of the income limits if they make $25,000, $27,000, $23,000, that they just do not qualify for financial assistance. I think an important statistic was brought out yesterday, that those families who earn $23,000 or more—and that is quite prevalent in the suburban community today between a husband and wife, or just the husband himself—they pay over 50 percent of the Federal personal income taxes in this country.

So, this is the main reason we have joined together, trying to get a fair shake for the suburban residents, the average-income persons. We will be offering these amendments on Tuesday, and hopefully they will be adopted by the subcommittee.

Thank you, Mr. Chairman.

Mr. **Ford**. Thank you. I think it should be observed, unless someone reading this record some day might be confused about our recognition of it, that the principal characteristic we refer to in this country as distinguishing us from other parts of the world is the fact that we do have a majority of our citizens who can be described as "middle class," as distinct from impoverished or extremely wealthy. I have been under the impression during most of my years of involvement in education that we have accepted as national policy the attitude that, as long as we have a middle class which outnumbers the other classes, we will have succeeded in some measure in meeting the promise of the signers of the Declaration of Independence.

So, I do not take it as any kind of exciting, new discovery that there are more middle-class people in the United States than other types of people. I would not want my membership in the Suburban Caucus to be in any way associated with the concept that suggested that we were involved in that caucus primarily as a result of some kind of a new class warfare, because, unfortunately, I do not have any middle-class people that make $30,000 in my suburban district.

I would like to ask you, Mr. Wydler, why, if this is only a stop-gap measure, as you described it, you would really prefer tax credits? Why do you go from $25,000 to $30,000; what difference does that make?

Mr. **Wydler**. Well, it would let some more people into the program. That is the only advantage of doing it that way.

Mr. **Ford**. What would it cost?

Mr. **Wydler**. You mean the taxpayers?

Mr. **Ford**. What does it cost to change the family income limitation in the BEOG's program from $25,000 to $30,000?

Mr. **Wydler**. You are talking about, how much would it cost the taxpayers to change it?

Mr. **Ford**. Yes.

Mr. **Wydler**. I do not have that breakdown, I really do not.

Mr. **Ford**. I do not have any idea what it would cost, as a matter of fact. But I suppose before we considered an amendment we should do a computer run and see what kind of money we are talking about.

Are you aware, John, that just about a week ago the Labor Department released figures indicating that only 20 percent of the families in this country have a combined family income in excess of $25,000?

Mr. **Wydler**. When you say am I aware of it, no, I do not remember reading it. But that does not surprise me.

Mr. **Ford**. Would you suggest that a program aimed at "middle-income Americans," that encompasses all Americans except the top 20 percentile in combined family income, is coming pretty close to hitting all the "middle Americans" that you are going to hit?

Mr. **Wydler**. Well, you have to decide what you mean when you use the expression "middle-income Americans." Of course that is a question of some philosophical discussion that you can engage in.

Mr. **Ford**. Ninety percent?

Mr. Wydler. Now, I am surprised to hear—I really do not know your own district that well, where it is—you describe it as middle class. We have in my area—which is a suburb of the city of New York—a great many people that we would call "blue-collar" people. They work in those types of jobs, more or less with their hands. The husband may hold two jobs, and the wife may hold one or more jobs, but their combined family income is maybe $30,000. They are not living the good life in any stretch of the imagination. They are working very hard to have that kind of income, and they need all of it to just more or less get along and survive.

I do not know about the situation in your area, but a typical small home in Long Island and Nassau County has a local tax bill now of up to $2,000 a year. That is money that has to be paid just for your school and local tax services. And I am talking about a very small, modest home, I am not speaking about any kind of a large home.

So, I do not find those figures at all. Nation-wide they may be true, but you have to deal with the types of communities you represent. In my area $20,000 is just about subsistence income for a family to exist and live, and that is mainly because of the cost of government.

Mr. Mottl. Mr. Chairman, I would also concur with that. I have the suburbs of Cleveland, and it is not unusual to have people, husband and wife working together, earning $25,000 or more, $30,000. You know your district better than I, I am sure, but all the statistics I ever see about Detroit, especially when the automobile industry is booming, their income is better than Cleveland's. We are a little more diversified, we are not strictly automobile like Detroit, but it is not unusual that people living in the suburbs—and I am not talking about Shaker Heights in Cleveland, I am talking about the other side—for many people who have the hard-work ethics, they work awfully hard to make incomes over $20,000, and they have difficulty putting their kids through school. I think it is about time we do something, and I am sure that is the purpose of this legislation, to help the average income people. I think the limits could be raised—not drastically, but somewhat—to help these people.

Mr. Ford. Mr. Buchanan?

Mr. Buchanan. Thank you, Mr. Chairman.

I am intrigued, first, by the suburban caucus.

Mr. Wydler. Why not join?

[Laughter.]

Mr. Mottl. We would love to have you.

Mr. Buchanan. Do you have members who also are representatives of cities?

Mr. Mottl. Sure, about half of our people. I represent Cleveland.

Mr. Buchanan. I have, I must confess, a certain schizophrenia about your testimony, John. I am in basic sympathy with what you propose. Our colleague from Ohio mentioned the fact that we are dealing here with "work ethic" people. Most of the people who live in a suburban district are people who are there as a result of somebody's work, and are people who do work, and who achieve.

We had a witness yesterday who recommended we simply do away with grant programs except in special cases; for example, a woman who is going back to school to add to her education. The witness was the president of a junior college and he felt it was better for the country and for the students to earn their education. He proposed we increase work study funds and expand the loan funds so that people could borrow and earn to pay back. He proposed it was better to work to earn one's education than to have it bestowed upon the person.

Is there a certain level of income at which it does become more reasonable to have loan and earning programs in lieu of grant programs?

Mr. **Wydler.** Again, that is a philosophical question. If we are starting from the beginning, drawing up all the Federal programs to date, I think those kinds of discussions would have some relevance. But as a practical matter, we are not, we are discussing ongoing programs, and I do not think it is very likely that we are going to throw out the programs we have now. We have loan programs, of course, and we have grant programs.

I look at this question in a little different way. If you really believe that we should get away from the grant concept, then I would say that is a very good argument for going to the tuition tax credit, which allows the poeple, to that extent at least, to keep the funds that they have earned, and use them for an educational purpose. That would seem to me to be a very good way to accomplish some of the theory behind the argument that the people should earn their education. That is money they have earned. You are letting them keep that money for the purpose of buying their education. I think that would be a very strong argument if you believed in that concept, for the tuition tax credit.

I have no objection to what you are saying, or to what this witness said at all, except in the context in which we are appearing here today. We know we have various Federal programs, and none of them are going to be canceled or wiped out, that I know of. So, we are going to either change them and amend them to be more realistic and do the things we want them to do, or we are not. That is really the issue I am addressing myself to. If we were starting from scratch, my testimony might be quite different than it is under the circumstances that we find here today.

Mr. **Buchanan.** I guess it is the case that $30,000 does not mean the same in suburban New York, or New York City, as it does in Birmingham, Ala.

Mr. **Wydler.** I don't know, I think you people are coming along pretty quick down there.

[Laughter.]

Mr. **Mottl.** All the industry is moving there, right?

Mr. **Buchanan.** I thank the gentleman for his testimony. We certainly will take a hard look at your proposals.

Mr. **Ford.** Mr. Cornell?

Mr. **Cornell.** John, I was just a little concerned by the reference at the top of your first sheet, the alternatives to tuition tax credits. I certainly agree with you on the need for tuition tax relief through a credit system. I noted not only did you use the word "alternatives" there, but at the close of your statement you take a rather pessimistic view.

I realize that the administration has indicated that they would not accept both, it would be one or the other. But I hope you agree with me that prehaps we can have this sort of legislation complement, or vice versa, tuition tax credits. I hope that during this session we not only pass legislation of this nature, but also some type of tuition tax credit.

Mr. Wydler. Well, I have tried in my statement to agree with you completely, obviously I failed. But my point was, Father, that if we were writing Federal aid for higher education now from the beginning, I would start with the tuition tax credit, that would be my first proposal. But unfortunately we are in a situation where we have to deal with the programs that are on the books. We already have a form of Federal aid to higher education in various legislation that we passed.

So, I do not want to just say, "Do not do anything here because that would mean we would get the tuition tax credit." I know legislatively that would not help us at all, to take that attitude. I also have been around long enough to know that the administration sent this up as a way to get that tuition tax credit program out of the public's mind and give them this as an alternative.

I will buy this program and in fact expand it. I am recommending we expand the administration's proposal—but not for the purpose that they are proposing it. I just think it is necessary to do that and improve these current programs. But I think the most important concept, and the most important program by far, is the tuition tax program. I am convinced, and I think everybody on this committee is probably convinced, that if we get this to a vote in the Senate and in the House, the tuition tax program will not only pass, but pass overwhelmingly. I am convinced that will be the result of such a vote.

I hope that we will get it to a vote, and I think we should. I do not think that this committee should send this to the floor of the House with the message that it is this bill, or the tuition tax credit, because I do not think that is the choice at all. I think they are compatible, and I think there is no reason we cannot have both. In logic there is no reason in the world. The tuition tax credit would just be another form of Federal aid to higher education, just like we have had loan programs, and grant programs, and whatever other kinds of programs we have currently in the form of Federal aid to higher education. These are not alternatives—they complement one another, and so will the tuition tax credit program.

Mr. Cornell. But do you not think, though, that it is rather unrealistic to expect that we could adopt a program like this, which already is a matter of well over $1 billion, and then a tuition tax credit that has been given various estimates of around $4 billion. Do you think realistically we could expect to get both?

Mr. Wydler. Well, I think you have to answer that question by asking yourself this, if those numbers are right—and of course, I have heard so many different numbers quoted at me in relation to not only this program, but the tuition tax credit program, I am not exactly sure which one is correct—but if you are talking about a $4 billion tuition tax credit program and a $1 billion improvement program, whatever the number may be, yes, I do think it is realistic because I do not know there is that much difference between the $4 and the $5 billion.

Mr. Quie. I do not think it is fair to compare the tax credit for elementary and secondary education, and higher education, with the higher education bill. The Roth bill, I understand, was about $1.2 billion.

Mr. CORNELL. There are various estimates, but I saw in the Roth bill something like $1.8 to $2 billion.

Mr. FORD. The Budget Office comes up with a figure of $1.7 billion if you have a $250 tax credit per student, and adjusted for part-time students.

Mr. QUIE. Oh, it is adjusted for part-time students.

The Commissioner is going to be testifying that the $250 is only for the full-time students; so, you have to use comparable figures.

Mr. FORD. John, I am interested in one other thing. There is absolutely nothing you said this morning that would not sound very good in my district, and hopefully you will not educate the Republican who is going to be running against me this fall. I know it is going to sound awfully good to my constituents. [Laughter.]

Mr. WYDLER. I just want to tell the chairman, you have always been my second favorite "Ford from Michigan." [Laughter.]

Mr. QUIE. The other one was a car? [Laughter.]

Mr. FORD. You made the observation that you think that tax credits avoid bureaucratic entanglement for us. Do you feel comfortable about the idea that the Internal Revenue Service would be writing regulations to determine what a full-time or part-time student is; and what attendance at a college or university was? I am sure you are familiar with the problems we have with various Federal agencies defining institutions. We have no problem understanding better known universities to be a "college," or "university." But someone, at some stage, has to determine what is a "school" for the purpose of qualifying the tuition paid to that school for a tax credit. That someone, presumably, if we go the tax credit route, is going to be the Internal Revenue Service.

Do you feel comfortable about getting the Internal Revenue Service into the business of defining education and writing the regulations about what is and is not a recognized or legitimate school?

Mr. WYDLER. Well, when you say do I "feel comfortable with it," the answer is, of course I am nervous about any Federal agency writing rules and regulations. I do not say that facetiously, I mean, really we have problems with that in every Federal agency, and we may have to deal with that as a general problem.

Mr. FORD. For example, let me call your attention to the fact that, over the years in trying to find a definition for "nonpublic school" in this committee, we have continually encountered the question of using the Internal Revenue's definition of a "non-profit, non-public school" because it clearly covers such things as the all-white academies in the South—I should not say in the South, but throughout the country where this phenomenon is occurring as it is in my own district—which were established for no other purpose than to avoid the consequences of integration. And yet, the Internal Revenue definition clearly makes them eligible for the same treatment as a Catholic, or Lutheran, or Hebrew day school operation.

Clearly, it would not be your intention to subsidize that kind of an operation, would it?

Mr. WYDLER. No.

Mr. **Ford**. The Internal Revenue has never been able to find a way to make a distinction between a fine, 300-year-old Catholic school and a brandnew all-white academy, constructed solely and exclusively for the purpose of avoiding the law of the land. They are all treated the same by Internal Revenue now. Do we want to turn education policy over to them?

Mr. **Wydler**. The thrust of the gentleman's argument is that we really should be careful of legislating Federal laws because the regulatory agencies might get us into problems by their regulations. I agree with the gentleman, however, I have always noticed that he did not let that concern him too much in the passage of Federal legislation in other areas.

I am very sensitive to the problems regarding the administration of the laws that we pass at the Federal level. I would say we have a lot of experience in this very area, for example, when we had programs such as the GI Bill of Rights, in which members of the Armed Forces were allowed to get certain payments made to various institutions. We had to define what was a qualifying institution and what was not, and some Federal agency had to make those decisions.

There will be problems in the administration of any law, but they will be a lot less in my judgment—a lot less under a tuition tax program, than under the programs we are currently running. They will cost us, as overhead, a fraction of what the current Federal programs cost us in the way of administration and the corresponding trouble and difficulties, because those people also have to define what is a qualifying institution.

Now, I think it would be fairly simple for the Congress to put provisions in the legislation that would allow these decisions relating to matters such as you are raising here to be made by other appropriate Federal agencies, if we felt that was better. I mean, let the Education Department make these decisions. If you wanted to do that, that could be done legislatively, if that was really a big problem. I do not know how big a problem it might be.

Mr. **Ford**. Well, I can give you some idea. There are well over 30 lawsuits going on at the present time across the country against the Veterans' Administration for just defining what a full-time student is, and defining their very simplistic regulations for administering the GI bill.

Mr. **Wydler**. Of course, I agree with the gentleman.

Mr. **Ford**. The Veterans' Administration is still running the GI bill based on what "college" was 25 years ago.

Mr. **Wydler**. I agree with the gentleman, of course, those are the current Federal programs. I think we would have a lot less trouble with a program such as a tuition tax credit program. I think those decisions would be a lot cleaner and easier to make than the problems of the type you are talking about. I think it could be handled much simpler than most of the problems we face in trying to run the Federal programs that we have currently.

Mr. **Ford**. Thank you very much. Mr. Quie?

Mr. **Quie**. I just want to echo Mr. Cornell's statement and your own, John. I believe we need both, improvement of the student aid program and tax credits.

Mr. Wydler. I appreciate it. Now, when I testified here today for the purpose of this hearing, I just want to make clear to Father Cornell, I am talking in terms of a tuition tax credit about higher education because that is the thrust of the hearings that you are holding. I have my own personal feelings regarding the other aspects of this question, elementary and secondary education, but I am just trying to confine myself for the purposes of your hearings to the question of higher education. That is what I am discussing here in regard to tuition tax credits this morning because there are different variations of tuition tax credit legislation, as the gentleman is well aware.

Mr. Ford. John, now that we have you and Al Quie on record as the two big spenders——[Laughter.]

I am really kind of elated because I have occasionally been reminded from your side of the aisle of my profligate habits with the taxpayer's money. So, I am really sort of elated to sit here as the conservative guardian of the Treasury, while you Republicans decide to up the ante by two or three times.

Mr. Quie. We have learned how to get elected from you. [Laughter.]

Mr. Ford. I do not think the fact that Al is running for Governor has anything to do with it. [Laughter.]

Mr. Mottl. Mr. Chairman, we have some Democrats over here, too, to join him.

Mr. Ford. As a matter of fact, you are the only one. [Laughter.]

Mr. Wydler. Before you gentlemen give the chairman an award as the "Guardian of the Treasury Reward," watch how he votes on the tuition tax credit. [Laughter.]

Mr. Ford. Thank you very much.

Mr. Wydler. I thank the chairman.

Mr. Ford. Now we have Hon. Ernest Boyer, Commissioner of Education, accompanied by Al Alford, Tom Butts, and Margaret Dunkle.

Without objection the statement of the Commissioner will be included in the record in full at this point. You may proceed to comment as you will. But if I might, before you start, I would like to thank you, Mr. Commissioner, for the tremendous amount of effort put into the creation of the program that is before this committee. But for your efforts and the efforts of people in your shop, people who are with you here today—and Leo Kornfeld who is not with you today—I doubt that we would have a specific piece of legislation at this juncture in front of us. I am sure we would not have a piece of legislation with the blessings of the Carter administration but for the efforts of you and your people.

It has not as yet been said often enough, and I think the record ought to carry my own personal opinion that you deserve a large part of the credit for initiating the activity that led to where we are. I hope we will have a chance to celebrate your success together.

We know that, as a matter of fact, the basic proposal that we are dealing with was already put together in your office some time before it surfaced as a piece of legislation here. I will not try to guess why it is so difficult to take a great idea like this and penetrate the bureaucracy that you have to deal with to get through the administrative process.

But, in any event, we are pleased that your ideas are now on the table before us, and pleased to be working with you for the enactment of this legislation.

Mr. Commissioner, on February 22 we wrote to Secretary Califano concerning any additional recommendations that he might have on behalf of the administration for this legislation before we concluded our hearings. It is my understanding that through you the administration does wish to communicate a recommendation for a change at this point.

STATEMENT OF HON. ERNEST L. BOYER, U.S. COMMISSIONER OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, ACCOMPANIED BY ALBERT L. ALFORD, ASSISTANT COMMISSIONER, LEGISLATION; MARGARET C. DUNKLE, SPECIAL ASSISTANT TO DEPUTY ASSISTANT SECRETARY; THOMAS A. BUTTS

Commissioner BOYER. Thank you, Mr. Chairman.

On behalf of Secretary Califano I should like to read into the record a response to your letter of February 22. The message conveyed is that:

> We propose to revise the GSL program so that it treats family tuition expenses for private elementary and secondary schools in a manner similar to the way that those expenses are treated under the Basic Educational Opportunity Grants (BEOGs) program. As you noted, this revision can be accomplished by regulation.
>
> The current formula for determining a family's eligibility for the in-school interest subsidy in GSL is simple. The family's adjusted income, for purposes of GSL, equals 90 percent of its adjusted gross income, minus $750 per family member. Thus, a family of four whose adjusted gross income is $30,000 would have an adjusted family income for GSL purposes, of (0.9) × ($30,000) − (4) × ($750), or $24,000. Under recent student assistance proposals, the ceiling on GSL eligibility for in-school interest subsidy is $40,000 of adjusted family income, which for a family of four is equivalent to an adjusted gross income of just under $47,800.
>
> In calculating eligibility for the in-school subsidy, we will make a change that will permit a family to subtract from its adjusted gross income the amount of unreimbursed tuition that it pays for private elementary and secondary school education. In the BEOGs program, unreimbursed tuition is automatically deducted from family income in determining eligibility and the amount of the award. We would merely extend this approach from BEOGs to GSL.

The Secretary has asked that I read that into the record, and the formal letter has been delivered to you.

[The letters follow:]

HOUSE OF REPRESENTATIVES,
COMMITTEE ON EDUCATION AND LABOR,
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
Washington, D.C., February 22, 1978.

Hon. JOSEPH CALIFANO,
Secretary, Department of Health, Education, and Welfare,
Washington, D.C.

DEAR MR. SECRETARY: As you know, HEW regulations provide that tuition paid by a student's parents for other children enrolled in an elementary or secondary school must be taken into account in determining his or her eligibility for participation in the Basic Educational Opportunity Grant Program authorized by Part A of Title IV of the Higher Education Act.

It is my understanding that regulations for determining a student's eligibility for federally subsidized interest payments on a Guaranteed Student Loan presently do not require that a family's elementary and secondary tuition payments be taken into account.

In connection with our joint efforts to provide relief for students from hard-pressed middle-income families, I would like to inquire about the feasibility of amending present Guaranteed Student Loan Program regulations to permit the consideration of a family's elementary and secondary tuition expenses in determining the adjusted family income. My understanding, based on our recent telephone conversation, is that this is one option you are now considering.

A prompt response to this inquiry would be very helpful to our Subcommittee in its consideration of the Middle Income Student Assistance Act.

With kind regards, I am

Sincerely,

WILLIAM D. FORD, *Chairman.*

SECRETARY OF HEALTH, EDUCATION, AND WELFARE,
Washington, D. C., February 22, 1978.

Hon. WILLIAM D. FORD,
Chairman, Subcommittee on Postsecondary Education, Committee on Education and Labor, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your letter of February 22, 1978, inquiring about the Guaranteed Student Loan Program.

We propose to revise the GSL program so that it treats family tuition expenses for private elementary and secondary schools in a manner similar to the way that those expenses are treated under the Basic Educational Opportunity Grants (BEOGs) program. As you noted, this revision can be accomplished by regulation.

The current formula for determining a family's eligibility for the in-school interest subsidy in GSL is simple. The family's adjusted income, for purposes of GSL, equals 90 percent of its adjusted gross income, minus $750 per family member. Thus, a family of four whose adjusted gross income is $30,000 would have an adjusted family income for GSL purposes, of (0.9) × ($30,000) − (4) × ($750), or $24,000. Under recent student assistance proposals, the ceiling on GSL eligibility for in-school interest subsidy is $40,000 of adjusted family income, which for a family of four is equivalent to an adjusted gross income of just under $47,800.

In calculating eligibility for the in-school subsidy, we will make a change that will permit a family to subtract from its adjusted gross income the amount of unreimbursed tuition that it pays for private elementary and secondary school education. In the BEOGs program, unreimbursed tuition is automatically deducted from family income in determining eligibility and the amount of the award. We would merely extend this approach from BEOGs to GSL.

With best regards.

Sincerely,

JOSEPH A. CALIFANO, JR.

Mr. FORD. Thank you very much; I appreciate this very clear indication of the administration's effort, in addition to the initiatives recently undertaken by your office and the Secretary to assist nonpublic school students, to recognize in a clearly constitutional way the special problems that people bearing the cost of private education face.

Also, I am sure Mr. Quie is happy with this because it was Mr. Quie and my predecessor, Jim O'Hara, who put a similar provision in the law with respect to BEOG in 1975 here before the committee. So, I am sure the committee would agree with me that this is a welcome initiative on the part of the administration.

We will probably want to restate it in the legislation, so you will know how happy we are about it. [Laughter.]

You may proceed, Mr. Commissioner.

[The prepared statement of Hon. Ernest Boyer follows:]

Statement by Hon. Ernest L. Boyer, U.S. Commissioner of Education, Office of Education, Department of Health, Education, and Welfare, Accompanied by Albert L. Alford, Assistant Commissioner for Legislation, Margaret C. Dunkle, Special Assistant to the Deputy Assistant Secretary for Legislation, Education, Department of Health, Education, and Welfare

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before this subcommittee to further discuss the Administration's new student aid proposal. As you may recall, when Secretary Califano appeared before the Joint Hearing earlier this month, he outlined the broad concepts embodied in our plan.

This morning I would like to focus my testimony on several issues which have arisen since Secretary Califano testified before you on February 9.

As you know, President Carter is committed to increasing student financial aid for middle income families with children in college. Toward this end, the President has announced that he will request a $1.46 billion package of grants, work study and loans in fiscal 1979 to provide additional student assistance within the framework of existing Federal programs. Of this total, $250 million was requested for these purposes in the President's original FY 1979 budget, and the additional $1.21 billion request will come from the allowance for contingencies.

Now let me turn to some of the issues which have arisen. First, with respect to the Basic Grant Program, I would like to emphasize that we are maintaining certain basic concepts of the program.

For example, the half-cost limitation will be maintained, but it will not for all practical purposes affect the new $250 minimum grant for families with up to $25,000 incomes.

I should point out that in the Basic Grants Program, with a few specific exceptions, the minimum cost of education is $1500. This occurs because we provide an automatic allowance for off-campus living expenses of $1100 and an allowance of $400 for miscellaneous expenses in determining costs. (Tuition and fees are added to that and, if a student lives on-campus, we use actual room and board charges rather than the $1100 allowance.)

Therefore, in almost all cases, the half-cost limitation only applies when awards exceed $750.

We also will maintain the reduction language included in the existing law which comes into play when the program is not fully funded. This reduction formula reduces the awards of the most needy students the least. We firmly believe that this is the only equitable approach and will maintain that policy in this new proposal and will apply the reduction to all students -- including the new $250 award recipients. In this way we can ensure that low income students will be hurt less than others if appropriations fall short of full funding requirements.

While we are discussing the new $250 grant, we should more clearly define the group of students who will be eligible for these specific grants.

First, no student who receives a Basic Grant under current provisions will also receive an additional $250 award under the new provisions. However, the program's new minimum award will be $250.

Second, we are not proposing to have single independent students eligible for the $250 payments. We have two basic reasons for this position:

> Students are the primary beneficiaries of their own postsecondary education. Single independent students should be expected to devote a much greater portion of their resources to their education than parents of dependent children, or independent students with other family obligations. With the change we are proposing, single independent students could have incomes of up to about $6000 per year and still be eligible for a Basic Grant. Students with higher incomes would not be restricted from applying for other types of aid, especially loans and work-study, if they needed additional help.
>
> We believe that by offering single independents a "guaranteed" grant of $250, we would be adding an incentive for families to declare their children independent thereby shifting the financial burden of postsecondary education to the government.

Third, the $250 "guaranteed" awards would be paid only to students enrolled on a full-time basis.

One final point on the Basic Grants program. We are proposing to increase the income offsets for single independents from $1100 during 1978-79 to $3400 in 1979-80.

This change will permit us to treat these students in the same manner as all other recipients. Curently, single independent students are the only group that receives a reduction in their eligibility levels because only the "out of school" or summer living expenses are included in the determination of their family contribution. For all other students, their living costs for the full year are considered.

At the same time, the Basic Grant is restricted to one-half of the cost of education. This means that we provide single independent students with an "offset" to cover summer costs, then restrict their Basic Grant to one-half of the cost of education, providing no allowance for living expenses during the regular school year. Since the maximum amount of Basic Grant any student can get in 1979-80 will be $1800, current procedure places the single independents at a severe disadvantage in financing their education. Our proposed change will improve considerably this situation.

* * * *

I would like to clarify one other point that relates to the Guaranteed Student Loan Program. We propose to increase the adjusted family income ceiling for receiving a Federal interest subsidy from $25,000 to $40,000 ($47,000 gross for a family of four). We believe it is very reasonable to expect a significant increase in the guaranteed loan volume from our proposal. While we do not have data presently available on the impact of the 1976 Amendments, we do know that there was an overall increase in loans of about $110 million from 1976-77 to 1977-78, the first year these amendments were in effect.

Regarding the possibility of low-income students finding themselves at a disadvantage in the competition for Guaranteed Student Loans, we have already begun discussions with Sallie Mae and State Guarantee Agencies on ways to make sufficient additional capital available to alleviate this potential problem. Of course, with the changes proposed for Basic Grants and College Work-Study, we also feel that the demand for loan funds from lower income students will be reduced.

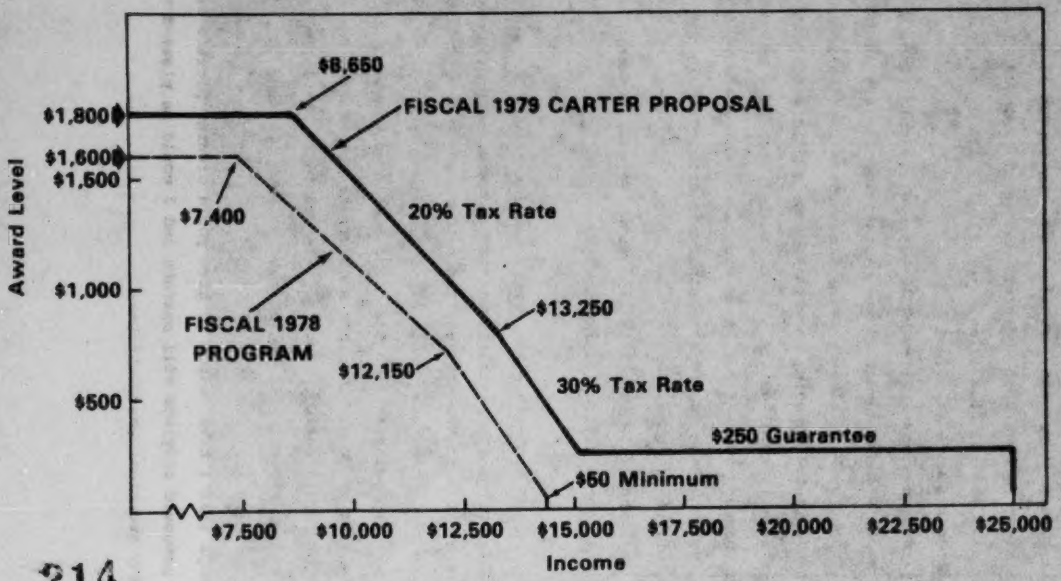
In any case, this is a situation which we will be watching closely as the new program is implemented.

* * * * *

Finally, we appreciate the prompt consideration that has been given to our proposals by this Committee and would emphasize that we believe that this is the most equitable approach to the problem of meeting the educational costs of middle income students. While we are not discussing tuition tax credits this morning, we must reiterate that we do not consider such credits to be good educational or fiscal policy. Further, the President has emphasized that he cannot support both the changes we have proposed and tuition tax credits.

I hope that I have helped to give you a clearer picture of how our proposed programs will operate and I would be pleased to answer any questions you might have.

BASIC GRANTS AWARDS BY INCOME
FISCAL 1978 AND FISCAL 1979 CARTER PROPOSAL



Illustrative of a family of four with one in post secondary education, no unusual expenses, average assets, and cost of attendance of $3,600.

Commissioner BOYER. I am pleased to be here to continue the discussion regarding the best way to serve middle-income students. As you know, it is a deep concern of the administration that we meet the pressing higher education costs for middle-income families. It is our deep conviction that President Carter has submitted for your consideration the combination of proposals which are clearly in response to that need, which strengthen existing programs; and which, in our judgment, would be the most effective way to respond to this urgent obligation.

I have come specifically this morning, Mr. Chairman, to respond to several questions that have come to us formally and informally regarding the particular administration of our proposal. I would like to speak first about several aspects of the basic grants program.

One question has been raised regarding the so-called half-cost limitation in the basic grant. This provision will be maintained under the proposal of the administration. I think it is important to note, however, that for all practical purposes this will not affect the $250 minimum grant for families with up to $25,000 incomes which we have proposed.

As you know, the minimum cost of education in the BEOG program is $1,500. That occurs because we provide an automatic allowance for off-campus living, which totals $1,100, as well as an allowance of $4,000 for miscellaneous expenses, in determining costs. Therefore, in almost all cases, the so-called half-cost limitation would apply only when an award exceeds $750. So, the two principal proposals do not at all seem to be on a collision course.

A question has also been raised regarding how individual grants would be reduced if this program were not fully funded. I want to make it clear that we intend to maintain the reduction language that is included in the existing law. This would come into play if the BEOG program were not a fully funded program, which we do not expect.

This formula, as you know, reduces the awards of the neediest students the least. We firmly believe this is the most equitable approach. We will certainly maintain this policy in the new proposal.

Mr. QUIE. Are you going to change your bill, then? Your bill says there will not be any reduction from the $250, which is for the highest income individuals. This sounds like you are going to change the bill.

Mr. FORD. It is not only highest income individuals, it is all individuals. I am sorry this really had not occurred to us before just yesterday, that people always look at the $250 as past $16,000, operating under the assumption, I suppose, that everybody below $16,000 is now receiving more than $250. That is just not true.

As a matter of fact, the fall-off point is below $15,000, and the award is $50 presently at that level. We are putting a $250 floor all the way across, including the low-income students.

Commissioner BOYER. That is correct, yes.

Mr. FORD. No student will get less than $250 regardless of his eligibility, while students now in the $10,000 to $15,000 category are all receiving less than $250.

Mr. QUIE. Right now in the reduction formula, if I recall correctly, if your grant was $1,200 or more, you only have a reduction of 75 percent.

Mr. Ford. $1,000.

Mr. Quie. If your grant was $1,000, you get a 75-percent reduction. If your grant was $600 or less, you get a 50-percent reduction.

Mr. Ford. $600 to $800 is 65; $600 and less is 50 percent.

Mr. Quie. Yes; $600 and less is 50 percent. However, with the $250, there is no reduction whatsoever.

Mr. Ford. Presumably, the way the bill is written now, if all you had left was enough to fund the $250 minimum across the board, that is what you would do.

Mr. Quie. You get a hundred percent on that. That does not seem to make sense to me.

Mr. Ford. Well, I tend to agree with you.

I think this Congress ought to be very careful to see that this money is not taken out of the "sacred middle class." It appears to me that is the most difficult group of people for our colleagues to vote against. So, I think we ought to make sure that the first buck that gets reduced in this program comes above $15,000.

Mr. Quie. That is pretty generally poor people.

Mr. Ford. Pardon?

Mr. Quie. Oh, you are talking about above $15,000? Yes; the first buck ought to come out of that. Now, the way this is, there will not be any bucks coming out of that.

Mr. Ford. Yes; that is something that I really do not think we gave any thought to. I think we ought to restructure the legislation to make sure that any reduction first impacts on the new people that are being covered.

Commissioner Boyer. I am going to ask Margaret Dunkle to comment on the legislation, and then I will respond.

Ms. Dunkle. Our reading of the reduction section of the basic grants legislation indicates that the grants to the neediest students are reduced the least. We support this approach.

Mr. Quie. Your bill says there shall be no reduction of the $250.

Mr. Ford. Of the existing law that she is referring to, in the case of any entitlement which does not exceed $600, 50 percent. So, the 50-percent figure applies to a $600 grant or anything smaller. So, it would automatically cut the $250 in half.

Commissioner Boyer. Yes; and as I understand it, Mr. Quie, it would affect the $250 new award recipients.

Mr. Quie. On page 2 of the bill, lines 20 through 22 would not apply, then, to the paragraph that you are referring to.

Commissioner Boyer. That is correct. If I understand the reference you are making——

Mr. Quie. "Except that any reduction required by this paragraph shall not reduce the amount of any basic grant to less than $250."

Commissioner Boyer. Is this the chairman's bill?

Mr. Quie. Yes; in H.R. 10854.

Mr. Ford. Well, this paragraph refers to this paragraph in the bill, not to the section of the existing law. We can make that very clear.

Commissioner Boyer. It was our intention that the $250 would be affected by any underfunding. I think Secretary Califano noted that in earlier testimony, and I am reinforcing that here. So, as I say in my formal statement, we must assure that low-income students will be hurt less than others if the appropriations fall short of requirements.

I would then go on to note, in summarizing my statement, that there have been several questions raised about the eligibility of students. It is our assumption that no student who receives a basic grant under the current provision would also be eligible to receive an additional $250 award.

Mr. **Quie**. Does that mean that those who have a grant would not get $250 on top of it; or everybody who got less than $250 would be brought up to $250.

Commissioner **Boyer**. The new program, as the chairman just mentioned, would raise the minimum award to $250. There was an important point he made that is often forgotten: the expansion of the minimum grant to $250 is really across the entire base of the basic grant, up to $25,000. In effect, we are raising the minimum award.

Mr. **Quie**. So, if a person was entitled to $50, he would get $250.

Commissioner **Boyer**. It is the minimum grant.

Mr. **Quie**. And if it was not fully funded, it would be reduced to $175. So, it would still be more than what he is entitled to under the present reduction formula.

Commissioner **Boyer**. He would still receive the minimum grant after the reduction formula was applied.

Also, single independent students will not be eligible for the $250 payment. We have had two reasons for this position. We believe students are the primary beneficiaries of their own education, and single independent students should be expected to devote a greater portion of their resources to education than parents of dependent children, or independent students with other family obligations.

As I note later, with the changes we are proposing, a single independent student could have income of up to $6,000 a year and still be eligible for a basic grant. We are, I think, making the major breakthrough here in recognizing the status of independent students. Students with higher incomes would not be restricted from applying for other types of aid, especially loans and work study, if they need additional help.

We also believe that, by offering single independent students a guaranteed grant of $250, we may in fact be adding an incentive for families to declare children independent, thereby shifting the financial burden of post secondary education to the Government.

The third point to make is that the $250 guarantee would be paid only to students enrolled on a full-time basis.

One other point on the basic grant program, Mr. Chairman. We are proposing to deal with the independent student issue and increase the income offsets for the single independent student from $1,100 to $3,400. This change would permit us to treat these students in a manner quite similar to all other recipients. As you know, there are currently several restrictions on the independent student. I will not review these restrictions here, except if you wish. In all, we think we are considerably improving the situation of the independent student who is now severely disadvantaged under the constraints of the basic grant regulations.

Finally, in my summary I simply touch on the guaranteed loan program. As you know, we are proposing to increase the adjusted family income ceiling for those to receive a Federal interest subsidy from $25,000 to $40,000. This equals over about $47,000 gross for a family of four. We believe there will be a significant increase in the guaranteed student loan volume.

When the eligibility level for the interest subsidy was increased from $15,000 to $25,000 in the 1976 amendments, we did have an overall increase in loans of about $110 million. We do not know precisely how much of that was generated by the generous inclusion, but certainly, the inference is there. I think participation would certainly increase if we further raised this income ceiling.

Also the question has been raised of whether low-income students would find themselves at a disadvantage because of the competition that would occur if you bring in more of the higher income students. We have already had discussions with Sallie Mae and the State guarantee already on ways to make sufficient additional capital avilable to alleviate this potential problem. It is also important to note that the changes proposed in basic grant and college work study programs are likely to reduce the demand from the lower income students for loan funds.

In any case, I simply note this as a matter that we will watch administratively and programmatically. We do not, however, think that is a sufficient deterrent that would argue against not extending loan possibilities.

Finally, I cannot express to you sufficiently, Mr. Chairman, the gratitude we feel for the intelligent and careful way in which the proposals we think important have been aired; all sides have been presented. We happen to feel very deeply that there is not just a technique or tinkering at stake here, but a fundamental policy as to how this Government makes available aid to needy students. That need is extending upward. We happen to believe firmly that using the mechanisms of a balanced program that includes grants, loans, and work study has proved extremely effective. To now change what we think is the basic philosophy of assistance at the Federal level and have an across-the-board tuition tax credit, undifferentiated on the basis of need, changes both the administration and the concept of how limited Federal dollars are made available to the citizens who need assistance to obtain a higher education.

The administration's proposal should not be characterized as a last minute effort to head off another alternative. We are trying to extend programs already in operation, and also to make a policy point that is fundamental and should not be ignored.

We are grateful to you for allowing us to comment again on this important matter. I will certainly respond to any further questions you may have.

Mr. FORD. Thank you very much, Mr. Commissioner. Mr. Quie?

Mr. QUIE. Commissioner, as we noticed by the action of the subcommittee of the other body, there were some changes made in the legislation. I would like to get some cost figures on some of these programs. One is, on the GSL, as I recall, they did not put a limit of $40,000 on it, they just took the limit off entirely. The limit of $40,000, as you indicated, is just about $48,000 gross income.

Can you give us the cost of removing the limit entirely, and the number of students that will bring into the program?

Commissioner BOYER. My memory is that there are about 50,000 families above the $40,000 income ceiling who may well apply. The number of families eligible, I believe, is about 350,000. But the estimate of how many of that pool would actually seek a loan is 50,000. Using this estimate, entirely removing the income ceiling for the interest subsidy would add another $9 million or a total of $64 million above current policy.

Mr. FORD. Mr. Commissioner, one of the outstanding achievements of your tenure has been the elimination of forms and reports, and other things. You have probably wiped out more red tape in your short career already than anyone has attempted in the past, and no one prior to you has succeeded.

But during our first hearing, Senator Javits raised the question of whether or not there would be an anticipated savings in administrative costs and effort if we took the limit off on the student loans.

Does the qualifying aspect of the applications for student loans represent substantial parts of the administrative effort involved in processing one of the loans?

Commissioner BOYER. It is my best judgment that the administrative cost argument for keeping the income ceiling at $40,000, or opening it, would not be sufficient in itself to justify eliminating the ceiling. I do not anticipate that the administrative costs of removing the income cutoff will increase significantly.

Mr. FORD. You are saying the probably increased cost is not very high if we take the lid off.

Commissioner BOYER. That is right. It would simplify the procedure.

Mr. QUIE. Would the gentleman yield?

Mr. FORD. Yes; I yield.

Mr. QUIE. Do you think it would compound the problem that you already referred to, of the difficulties of low-income families getting the loans?

Commissioner BOYER. To me the argument that causes caution here is whether you in fact want the absolute open-endedness when you are dealing with those exceptions. In percentages they are small; socially, philosophically, politically they maybe very large. People find it hard, I think, to understand how to justify a subsidy for excessively high income people. There are only a few examples you need to raise a broader public policy point.

And the other point you raise, whether loan money may in fact tend to be the most attractive from the standpoint of the lender. A bank can loan to a family making $250,000—that is more attractive to a bank than dealing with those at a marginally lower level.

Mr. QUIE. But in numbers, you said, it would be relatively small.

Commissioner BOYER. Yes; that is true. In the total pool you are talking about a very small increment on top of the base we mentioned earlier.

Mr. FORD. Yesterday we heard from Margaret Gordon of the Carnegie Council on Policy Studies. She recommended that we consider in the reenactment of the higher education programs an alternative to our loan program a National Loan Bank that would be wide open with no income or family-size limitation considerations at all.

Her testimony indicated that they have studied this, and they do not really believe that it places a very high burden on a loan program to go beyond the $25,000 family income.

Commissioner BOYER. Well, I have to say that we were trying, in response to the middle income question to extend it quite generously. The issue of whether it should be fully open-ended was not considered as an option in our discussions. We thought we would extend it beyond the current $25,000, so that almost anyone who by definition would have a need would be eligible.

I speak only individually to say that we did see what we thought were some anticipations of problems of drawing away funds, in a way generating some criticism that our program was helping those who by no stretch of the imagination were needy. Now, if the Carnegie Council has other alternatives, they will be fully discussed next year during our reauthorization process, when we address student assistance. We will look at their refinements to make these programs work better. Our proposal was an attempt to have a commonsense point as a cutoff, based on the social needs we saw.

Mr. FORD. I think it is important that we do address the whole student loan program. We have, at least from my perspective, a great opportunity, thanks to the proponents of tax credits, to educate the American public about the existence of and the nature of Federal assistance for higher education. It is really remarkable when you see the reaction from across the country about our legislation which, I am happy to say, has been very positive and very supportive, from people you presume to be rather sophisticated who really do not understand how you arrive at the specific amount of money that a student receives, and how complex it becomes at the campus level.

But, it is apparent that we have people thinking very intensely about the specific fine tuning of our loan programs in a positive way, as distinguished from a few months ago when everyone was concerned with how do we make people pay the money back. We get back to the question of how do we get the money in the right hands to provide education, instead of the preoccupation we had.

Commissioner BOYER. May I just respond to that to say, I am delighted with that as well. It not only leads to sophistication, but also educates people that these Government loans and grants are available. I think the entire discussion has been a marvelous contribution to the notion of adding student assistance where needed.

Mr. QUIE. Getting back to my time again. The person who has an income above $25,000 is much more sophisticated in handling his money. If we do take the limit off it would be the case for everyone up to $48,000, if we do not take the limit off that the Senate bill provides.

Is it not really wise use of money for anyone to then get a guaranteed student loan program and get that subsidy for the interest, and then pay it back after college? He can then take that same amount of money and invest it and draw the interest. That works similar to the tax credit idea, if everybody is going to get a grant of money. They are using a little more circuitous route to accomplish it.

That being the case, what would be the cost of processing that? Not the actual payment of the money, just the cost of processing that program for those above $25,000 because I would then like to work the same thing of the cost of processing the tax credit. People fill out their own income tax.

Commissioner **Boyer**. The cost of processing?

Mr. **Ford**. They do not pay the auditors of Internal Revenue to come around and harass them about whether or not their student is going to an architect school.

Mr. **Quie**. No; they do not pay auditors to come back and look at it.

Commissioner **Boyer**. I do not know at the moment how to calculate the cost of the administration of Guaranteed Student Loans with the extension that you have asked. We anticipated that raising the income ceiling will not increase, and may in fact decrease, administrative costs.

Mr. **Ford**. Could I just make one comment? I hope it is taken in the right vein. During the dicsussions of putting a limit on the loans, I have facetiously suggested to the administration that if they take the limit off altogether, it would take the Republicans practically no time at all to discover that there was a way to get some cheap money in the marketplace, and it would have a tremendous appeal on your side of the aisle from that standpoint once they discovered it. I am sorry you revealed it up front. [Laughter.]

Mr. **Quie**. You see, I have known that for a long time. [Laughter.] Because there are some individuals in my district called "farmers" who do not show a great income at all. So, they qualified for loans for some time. It was revealed to me that the best way of using their money was to draw interest on it. So, I know how that operates. See, I am a farmer, and I did not make this amount of money, either.

I have another question. I have introduced a bill for a 14-percent tax rate instead of your 20 and 30; and the Senate has a 10.5-percent tax rate, which brings it up further. So, I would like to get some cost estimates because I do not like the $250 flat amount from $16,000 on up, at all. I would just guess that individually you do not, either, but I will not ask you that. [Laughter.]

[Tax rate tables follow:]

1979-80: ACADEMIC YEAR BASIC GRANT PROGRAM ESTIMATED RECIPIENTS AND PROGRAM COSTS[1]

$1,800 CEILING: 87 PERCENT PARTICIPATION, $1,800 MAXIMUM AWARD

14 PERCENT UNIFORM INCOME ASSESSMENT RATE, FAMILY SIZE ALLOWANCE PLUS $750

TOTAL PROGRAM COSTS: $3,079 BILLION[2]

Income	Recipients (thousands)	Percent recipients	Program funds (millions)	Percent funds	Average award
0 to $5,300	469	14.4	$556	18.5	$1,185
$5,301 to $9,900	746	22.7	875	28.8	1,172
$9,901 to $15,900	918	27.9	894	29.4	973
$15,901 to $19,900	587	17.8	424	13.9	722
$19,901 to $99,999	568	17.2	287	9.4	506
Total	3,288	100.0	3,036	100.0	923

SPECIAL INDEPENDENT TREATMENT

TOTAL PROGRAM COSTS: $3.157 BILLION[1]

0 to $5,300	472	14.3	$581	18.8	$1,229
$5,301 to $9,900	766	22.8	901	28.9	1,175
$9,901 to $15,900	953	28.4	919	29.5	964
$15,901 to $19,900	592	17.6	426	13.6	719
$19,901 to $99,999	568	16.9	287	9.2	506
Total	3,351	100.0	3,114	100.0	929

[1] This estimate is based on 1st quarter model update, including revised inflators and reprograming to incorporate elementary and secondary tuition offset.

[2] Includes program and institutional administrative allowances.

Source: Office of Education.

Mr. QUIE. In the chart from the administration, there is an assumption that the $1,800 payment would be going all the way up to $8,650. I have not found any basis for that assumption. I was just wondering how that was made.

Mr. FORD. Commissioner, I should interrupt to say that Mr. Quie, better than anyone on this committee, knows exactly what kinds of restraints you are under with respect to dealing with this money. For 8 years he was our only wedge to get at the Office of Management and Budget under the previous administration and consistently, over the years, was responsible for fighting his way through the maze that you now have to deal with, with a different administration, on behalf of education. But for him and Senator Javits, we would still be sitting where we were 10 years ago.

Mr. QUIE. There are differences between Commissioners who are Republicans or who are Democrats, but there is no difference between OMB people. [Laughter.]

Commissioner BOYER. Well, I should say that is almost always uncomfortable. I am sorry, your question had to do with the estimate at the point at which the maximum grant began to taper off?

Mr. QUIE. From $8,650.

Commissioner BOYER. That question was raised by staff just before the meeting. I would like for Tom Butts to doublecheck with Chris Cross, if he could. There may have been some difference here in the amount of the discretionary income that is excluded for taxation, but I think that might be a minor matter. But I would like to make sure that that chart is absolutely correct. We will converse on that immediately.

Mr. QUIE. There are two parts of it I am still bothered about. In our conversation a little bit earlier on the reduction if it is not fully funded, the $250 grant is not reduced because this paragraph, it seems to me, supersedes anything that was in the law. I wish you would take another look so at least the language will actually say what you said it intended to.

Second, it seems to me the $250 would be prorated down for those who are less than full time. I do not see anything in the language saying it would be only for full-time students, as you indicate. I would appreciate having both of those clarified.

Commissioner BOYER. Yes, sir. We will do that.

Mr. FORD. Commissioner, Mr. Quie has drawn our attention to the fact that his reading of the bill—and I agree with him—indicates that the $250 minimum would be in place even if tuition cost did not reach that amount. I have not had a chance to talk to you about it, but I am inclined to agree with Mr. Quie that it ought to be spelled out in the legislation that if, in fact, you are talking about $100 or $50 tuition, the cost at a community college, you should not be given the $250 grant for that purpose.

Commissioner **Boyer**. We would hope to work with you to clarify this point. We will consult with the chairman, whose bill has been drafted here on that.

Mr. **Quie**. The last part on the $250 that bothers me is it seems to me that if, say, the estimated family contribution was $1,500, and then you get the $300 to get up to $1,800. You have the reduction because of the cost of education being the half cost. But if the cost is, let us say, $1,300, or $1,350, at the institution, then a $1,500 family contribution plus the $250 brings him up above the cost of going to the institution.

It is one thing to give $250 to everybody from $16,000 to $25,000 when they actually get it above the cost of going to the institution—we could not ever stand up on the floor and justify that at all.

Mr. **Butts**. The $250 grant is not tied to the family contribution schedule as it stands. The possibility of a student having costs of less than $1,500 is extremely remote because of the minimum allowance for off-campus living of $1,100, and $400 miscellaneous expenses. It would only be for a student living on campus with room and board fees of considerably less than $1,100 where this would be operative.

Mr. **Quie**. You have ignored the effective family contribution. The case I have suggested here does not give your answer much meaning. You start out with the $1,500 effective family contribution, and I do not care what figure you use then, of less than the $1,500 cost of the institution—there are an awful lot around at $1,400. You then actually are making a payment that is greater when you add the $250 to the effective family contribution, than is the cost of attending the institution.

Mr. **Ford**. Al, at the top of page 2 of the Commissioner's testimony you see where he points out that the present system assumes the $1,500 cost of education with the $1,100 for allowance for living expenses, and the $400 for miscellaneous expenses, under the present system. The community college, in other words, living at home, is not going to be touched with this.

What do we know, Tom, about the cost of living on campus; do we have a substantial number of students who live on campus who fall below that $1,100 level?

Mr. **Butts**. Very few. Room and board rates are going up much above $1,000, they are pushing more frequently now in the area of $1,400 to $1,500; $1,800 and $1,900 in public institutions is not uncommon.

Mr. **Quie**. But you used the example in your testimony of $1,100 campus-cost living, and the $400 miscellaneous expenses. In some instances they are less than that. There are some very low-cost public 2-year institutions. So there is going to be a number of them where the actual cost is going to be less than, using the effective family contribution of $1,500, you add $250 to that, and you have $1,750. There are a number of them that are less.

Mr. **Ford**. But Al, I am not aware of any public 2-year institution that has on-campus living facilities. They would all be off campus.

Mr. **Quie**. Yes. As I say, off-campus living facilities and very low tuition. So, there is a number of them where the estimate of off-campus living expenses and the tuition fee would be less than $1,750.

Mr. **Butts**. But in any situation the family contribution conceivably could be much larger than, say, $1,800. The point of the $250 grant is that in all of those situations, when you consider the family contribution in that discussion, you will in effect say that student has available more money than is needed to go to school. The point is that this $250 is intended in effect to presume that, with a family income of less than $25,000, there is at least a basic foundation-type grant there of $250.

Mr. **Quie**. When you look at the needs of students, all the ones with zero family contribution on up to half cost, it just seems to me it is so totally unfair, the way this program is devised. In an attempt to reach fairness the Senate committee took their action. I think that is the only fair way we can go. We figure how far up the income ladder we are going to reach, whether it is in the proposal I have, which turns out to be $23,470, using that 12-percent tax rate; or $26,117, using the 10.5-percent tax rate and get up to $25,000. It seems to me that is the only fair way of doing it, rather than giving people flat grants of money, with a wide span of income.

Mr. **Ford**. Did the Senate start off with $1,600?

Mr. **Quie**. $1,800.

Mr. **Ford**. They have close to a $2 billion bill. They are getting close to the original proposal.

Mr. **Quie**. If this program is going to be accepted and not blasted out of the water, it has to have the impression in people's minds of fairness.

Commissioner **Boyer**. Well, we sought that very much, Mr. Quie. I was trying to interpret the illustration you gave. I thought I heard it pivoting on the issue of calculated need versus cost, and I also thought you may have suggested adding $250 on top of the calculated basic grant.

Mr. **Quie**. No; effective family contribution.

Commissioner **Boyer**. The issue of what is the limit of finances within which we are working was a part of our attempt to put together a combination of programs that would extend the basic grant program and still allow us some funding to extend the work-study program, which we think is a very effective component of the total set of student aid programs. And, as we have already discussed, make loans available up to a fairly generous family income level. That has always been the guiding formula.

But obviously, equity, as well as a sensible combination of programs, was the goal within a fiscal ceiling. Now, you could of course adjust the formulas endlessly within that; or you could take the basic grant and deal with that much more generously. I think there are tradeoffs in terms of what you lose if you try to hold to a fiscal ceiling. So, it is hard for me to say in principle that alternatives do not have merit. Within these possibilities, we chose a combination of aid programs, which we think is important, rather than dealing only with one, such as the basic grant.

Mr. **Quie.** I think there is one problem with the tax credit, that it gives everyone conceivably about the same credit, using the Roth bill.

Commissioner **Boyer.** That is right.

Mr. **Quie.** That may be a bad principle. The administration bill, while on a more limited basis, gives us the same bad principle. I think it is subject to criticism. You ought to go back to the way the bill was developed in the first place with BEOG's and use what is a fair principle and extend it out as far as you can go. That is really what I am getting at.

Mr. **Ford.** Al, that is the form this package had until it got to OMB. That is where the big bite in our draft came.

Mr. **Quie.** They must be secret admirers of the tax credit.

[Laughter.]

Mr. **Ford.** I would be pleased to find we had a "closet liberal" in the Budget Office.

Commissioner **Boyer.** I would have to recognize, at one point there is a point of similarity, but I think it would be unfortunate for that to dominate what is in fact the underlying structure and the underlying philosophy of the combination of programs we have proposed. I think the tax credit, unrestrained, as a substitute, takes that point you are making and caricatures it, and I think establishes a fundamentally bad assumption regarding how student aid should be provided. That is, I think, where it becomes dramatically inappropriate.

Mr. **Quie.** We will fight that one. Some of my colleagues have some questions.

Mr. **Ford.** Mr. Erlenborn?

Mr. **Erlenborn.** Thank you, Mr. Chairman.

Talking about OMB and the cost of this program, were any funds included in the President's 1979 budget for the proposal here before us?

Commissioner **Boyer.** The contingency fund included $700 million for this purpose initially. But we are drawing from the contingency fund of the Federal budget to accommodate the proposal before you, which in combination, of course, extends to $1.2 billion.

Mr. **Erlenborn.** Do I understand that all of the $1.2 billion then, could be accommodated within the President's 1979 budget, or will there have to be an addition?

Commissioner **Boyer.** The $1.2 billion will come from the contingency fund.

Mr. **Erlenborn.** Robbing Peter to pay Paul, is that the concept?

Commissioner **Boyer.** It was in the set-aside, in the contingency fund to accommodate precisely this kind of development that could not have been anticipated in full form. We knew we were making commitments to this when the budget was put together. We were still negotiating as to the shape and scope. The details, and therefore the final figure, had not been settled. But the budget clearly identifies this as an anticipated program, and there is a plug figure of $700 million noted. But that was not expected to be necessarily the absolute figure. The contingency fund contains adequate funds and does not represent a programmatic tradeoff.

Mr. **Erlenborn.** Directing your attention to the guaranteed student loan proposals, first of all, let me say that I have been a staunch supporter of that program, perceiving it to be the one that was probably most used for the type of constituent that I have in my district. Yet, I have had some mixed emotions about the program and its off-budget nature.

We have in effect the extension of the credit of the United States, every bit as much an obligation of the U.S. Government than the issuance of a note of debenture or whatever. Yet, it appears nowhere in the budget; does it?

In other words, if the Government has guaranteed several billion dollars worth of loans, that figure does not appear anywhere in the budget as an obligation of the United States, or expenditure.

Commissioner BOYER. Well, I would expect that it would have to appear as an obligation in the total budget.

Mr. ERLENBORN. I do not believe it does.

Commissioner BOYER. Well, I do not know whether it appears in that form, certainly not under the appropriations process, to be sure. But I guess you mean by the budget the request for appropriations that are submitted. The answer to that would be "no." I was using the "budget" in the total fiscal sense. It would have to appear as a debit obligation of the Federal Government, but it would not appear as a part of the Presidential request to you, if that is the nature of your question.

Mr. ERLENBORN. If we were to make these loans, we would have to show an appropriation and then, if the loan was repaid, it would be shown in the receipts. It would be totally on budget.

Commissioner BOYER. Yes.

Mr. ERLENBORN. These obligations are off-budget in that sense.

Commissioner BOYER. In that sense, yes.

Mr. ERLENBORN. There is no receipt, no appropriation, no disbursement.

Commissioner BOYER. To that extent it does not show in the annual appropriations budget in the way it is calculated. I do believe that would be a correct response to your question.

Mr. ERLENBORN. Before making the recommendation for extending the guaranteed student loan program, did you make any inquiries to the financial community as to the availability or the potential availability of funds to meet the potential loans?

Commissioner BOYER. Not in relation to this program extension directly. But we are in constant communication with the financial community on the management of this. Our current evidence is really optimistic on this. We are stabilizing and indeed extending, because they are aware of every management step we are taking to assure the collections, and to see that they are not stuck with defaults, that we are under the law obliged to pay.

I must say when I first arrived, the first half dozen meetings I had with banks had to do with examples where under the law their default had been passed on to us, and there had been, really, endless hassle over the question of due diligence, which they were to have performed. So, there was a crisis in confidence. We had delegations from banks from various parts of the country and I had meetings with them.

I think this combination of moves has expedited the resolution of those confusions that had been unsettled for many months. Also, the front-end action we are taking on the collections has reestablished the kind of confidence that gave us every assurance, especially when you are talking about an income level that was not at all low risk. That causes us to feel that the banking community is in fact supportive, and the added capital would be available.

Mr. **Ford.** I should observe that the American Bankers Association is going to testify following the Commissioner.

Mr. **Erlenborn.** Yes; I noticed that. I have not had a chance to read their statement.

I am happy, Mr. Commissioner, that you mentioned income level, the relatively less risk there is in making loans to the higher income level. Given the assumption that there is not an inexhaustible supply of funds for these loans, and having now, if this legislation is passed, the higher income level families eligible for the subsidized loans, which we know are the only ones that are attractive, is there a risk, in your opinion, that that is likely to be where the loans will go, rather than the higher risk, lower income?

Commissioner **Boyer.** I noted that as a concern, and we have already started consultations with the financing agencies on that matter. One important observation is that we are dealing with a very much diminished population, as you move toward incomes of $40,000 net, and $47,000 to $48,000 gross. So, it would be important to understand, we are not talking about tradeoff numbers at all. In fact, as you move higher up the income scale, you have a lower percentage of participants because these people may not turn to Federal aid in quite the same way as lower income people.

Yes, I agree entirely with the possibility you cited theoretically, and to some extent it could be a problem operationally. It would subvert the program if we saw the lending pattern drift upward. I do not believe that potential problem is sufficient to argue against no change in the program. I would only say that, by consultation with the banking community, and by carefully monitoring the actual program for a year or two, we can make sure that trend does not occur; and, if it does, try to correct for it.

But I agree, it is a very wise point to make. I think it not sufficient to argue only about extending the opportunity for a loan subsidy; it argues for careful monitoring and reporting, and further adjustment if necessary.

Mr. **Erlenborn.** I think we know from experience there is not an inexhaustible amount of money of this type of loan. It is different from a commercial loan; the repayment does not begin in many cases for several years. As a matter of fact, that is what led to my recommendation, or the introduction of legislation to create Sallie Mae, to provide a secondary market.

Have you consulted with Sallie Mae?

Commissioner **Boyer.** I should have mentioned Sallie Mae earlier. Of course, that has been the important buttress here; it has been absolutely crucial. Our proposal includes in it some special allowance attractions for the lenders, as part of our proposal in extending the guaranteed student loan program. That, too, I think gets back to the point of whether or not the market is ready for this. I think the added enticements we have built in tend to strengthen the affirmative answer to that.

Mr. **Erlenborn.** What other area of inquiry—I think you will admit that this program acts as, or is meant to be a counter to the proposal for tax credit for higher education.

Commissioner **Boyer.** I understand that, yes.

Mr. **Erlenborn.** One—which might be considered by some fairly minor points—is it the position of the Office of Education and HEW that the attendance at a school by a student who gets either a grant or a guaranteed loan then subjects the school to the application of title IX?

Commissioner **Boyer.** You are asking what I think would be a judgment from OCR, the Office of Civil Rights. It is my understanding—and I am sorry I have not discussed that issue immediately—but it is my understanding that the answer to your question is, yes.

Mr. **Erlenborn.** I understand there are some schools that have tried over the years to avoid any involvement with the Federal Government and the attendant control that goes along with that, such as, I guess, Hillsdale College, Brigham Young University, and others.

Mr. **Ford.** I should tell you that, when HEW asked that college in Michigan to comply with the sex discrimination provisions of the law, the president of the college promptly announced his candidacy for the U.S. Senate, predicated on the assumption that he was needed very badly down here to save his school and others from this outrageous intrusion to their privacy. He was quick to point out that there was no sex discrimination on his campus because they gave college degrees to females as well as males.

He has since withdrawn in the past week. A considerable campaign fund was gathered for him rather quickly after that announcement after HEW. We in Michigan credit HEW with raising more money for a Senate campaign than anybody else so far [laughter] in their attempts to enforce the title IX provisions.

Mr. **Erlenborn.** Is he turning those funds over to you, so you can run for the Senate? [Laughter.] Let me just ask in conclusion, in your opinion—if you have one—would the extension of the tax credit to the family of a student attending a college or university have the same effect of the application of title IX on a college or university?

Commissioner **Boyer.** As to a particular circumstance, I really should defer to the Office for Civil Rights on that question. However, I do want to talk generally to the matter. I find it hard to understand how an institution would not be interested in seeing that the legally expected—constitutionally expected, in my view—mandates of nondiscrimination were removed. I would also say on the more technical point that I think if the school does benefit from the largesse of Federal policy—whether directly or indirectly—through grants or through the subsidies that make it possible for students to attend, they are in fact being federally aided and financed. I have been in this business a long time and do not feel much sympathy for what I think is a narrow technical definition of what represents Federal support or nonsupport.

Now, if an institution feels that it wishes to be absolutely unsupported and unsustained by Federal aid—whether directly or indirectly—one would be hard pressed to explain any kind of Federal mandate. But I do not see how you can have it both ways and attempt to draw a line around student assistance and not argue that is an enormous benefit to institutions. Many colleges could not survive without having that Federal subsidy. It is in fact a lifeline. I think it is not a correct interpretation to say that it is an indirect benefit and therefore none at all.

Mr. **Erlenborn.** In your answer I see that you have assumed that anyone who does not want to have Federal civil rights programs applied is necessarily one who intends to, and does discriminate.

Commissioner **Boyer.** No.

Mr. **Erlenborn.** I would challenge that. I do not think that necessarily follows. I have a lot of folks back home who follow the law, they are very happy to follow the law relative to this and other things, but they do not like all the forms they have to fill out, and all of the looking over the shoulder by Uncle Sam, so to speak.

So, your answer in assuming that they do intend to and do discriminate, I think, is unfair.

Commissioner **Boyer.** I will clarify my statement. I do not make that assumption. I was making two points. First, I was making the simple statement that I think colleges, institutions have the obligation not to discriminate: that is No. 1.

Mr. **Erlenborn.** But do you not think they can fulfill that obligation without the "hot breath" of Uncle Sam over their shoulder?

Commissioner **Boyer.** Hot breath or no—yes. The second point I was making was that I do not quite feel you can draw a line between direct and indirect assistance. My first point was, I guess, an unsolicited statement of conscience. My second point was a more administrative statement.

Mr. **Erlenborn.** You may be right in that the Supreme Court, I think, in many cases has said that tax credits, that approach by States to aid students attending church-related primary and secondary schools was an involvement. So, it may be that if we follow that interpretation schools of higher education and tax credits, then every school will be subject to title IX merely because they are here in the United States and U.S. citizens attend them.

Commissioner **Boyer.** Well, there are other sections, of course, title VI of the Civil Rights Act and the provisions of section 504, for example, where Federal funding is contingent upon certain institutional performance. To answer your question, I certainly believe institutions, in many instances, in quite good faith seek to meet the mandates without having the Federal oversight. That is not at all impossible.

Mr. **Erlenborn.** Thank you very much.

Mr. **Ford.** It is not really conceivable that the Federal Government would accept as a legitimate claim for a tax credit payments of tuition made to a school that violated the Civil Rights Act.

Commissioner **Boyer.** I would not imagine.

Mr. **Quie.** Mr. Chairman?

Mr. **Ford.** Mr. Quie.

Mr. **Quie.** Your change on independent students, what is that going to cost?

Mr. **Butts.** About $125 million.

Mr. **Quie.** So, I believe the other body dropped those changes.

Mr. **Butts.** Yes.

Commissioner **Boyer**. That does concern us, that is one of the fallouts that would be missing.

Mr. **Quie**. The other question; you estimate, as I recall from Secretary Califano's statement, 280,000 additional work-study jobs?

Commissioner **Boyer**. The number of jobs involved?

Mr. **Quie**. Yes; for students.

Commissioner **Boyer**. The total would go from about 800,000 to 1 million, that is a rough figure; more than a million, somewhere in that range.

Mr. **Quie**. So, these funds would help find work opportunities for 280,000 students, and bring the program total to more than $600 million.

Commissioner **Boyer**. Yes.

Mr. **Quie**. Now, does that take into consideration the increase in the minimum wage? You are going to have an annual increase in the minimum wage as set by law.

Commissioner **Boyer**. It could affect it adversely.

Mr. **Butts**. The way the program operates, students have to demonstrate need, and then they are given a total award amount. The increase in the minimum wage would simply mean that the students will earn their award sooner; not necessarily that fewer students are in the program.

Mr. **Ford**. It just reduces the number of hours.

Mr. **Butts**. You just earn your award in less time.

Mr. **Quie**. So, that means that each year they work a little shorter time and earn the same amount of money.

Commissioner **Boyer**. Yes; of course, there are other variables. That would be a variable that might shift the total population down or affect the number of hours they work; that is true.

Mr. **Ford**. If Mr. Erlenborn is amending the minimum wage bill, maybe we will be able to get more hours out of them for the same amount of money.

[Laughter.]

Mr. **Quie**. Well, we have the student differential now.

Mr. **Butts**. There are also provisions for schools to apply for subminimum wages if it affects them adversely.

Mr. **Quie**. So, they account for what, the 85 percent?

Mr. **Butts**. That is correct.

Mr. **Quie**. Of course, that keeps increasing.

Commissioner **Boyer**. That is correct.

Mr. **Quie**. Do you have any questions in your mind whether that is wise, to put the additional money over, against SEOG, or SSIG?

Commissioner **Boyer**. The work study program was our clear and preferred starter when we were moving beyond BEOG and the loan.

In trying to put this together, we were concerned in part about simplicity. We wanted to be able to have several key components that philosophically represented the programs that we were in. That was encouraged also by the fact that we were just getting started with our total postsecondary reauthorization process. We want to be sure to have our options open on putting together the best possible package for reauthorization.

Now, regarding the two alternatives you mentioned, I am convinced that college work study was the best third starter. The only discussion has been, should one have also added other pieces?

Now, the State incentive program was attractive. It is by law and theory at least a 1-to-1 match, so that you get much more "bang" for your investment. A curious thing has happened, however. I think it should be noted here for the record that States have been moving ahead—some States at least—faster in their scholarship program than the match. In other words, they have not needed our prod. So, the curious effect has been that when we give money to them, it does not generate new money. It is really viewed as a contribution that is simply overdue because they have already gone ahead. The estimates now are that we get about 27 cents for every dollar.

Now, I think we have to confront that in our reauthorization process. It may be we will somehow put a stop on that and start again in our 1-to-1 match, or whatever. But upon examination it was not quite as attractive as it might have been.

I think the supplemental grant money was probably the one most hotly contested. Your committee has heard full comment on that from colleagues who are administering this program in colleges, especially private institutions. We can only fall back then to the final judgment we made, that the three pieces, standing alone, trying to negotiate it both in the administration and beyond, most clearly represented philosophically what we wanted to do, and would, we thought, dramatically move to meet the stated need.

I could not, of course, argue that the supplemental grant is not attractive as an added utility for the campus administration. But on balance I would certainly argue that the work-study was the right third piece to put in.

Mr. **Quie.** My concern is that the colleges in smaller communities do not have the opportunity for work, as some other colleges do. I was wondering if we could put that full amount in there.

Commissioner **Boyer.** Yes.

Mr. **Quie.** The last question I have is along what Mr. Erlenborn was talking about. Will we bring, by expanding the GSL program, more lenders into it? I think we are getting up in the income level where people kind of lend the money to the bank, who turns around and lends to them. Would opening that up bring them in to become lenders?

Commissioner **Boyer.** I do not have a good reading on that, Mr. Quie. My own hunch is, based upon what I have learned in our own consultations, that the strength of participation would not be significantly affected by that added move.

Mr. **Ford.** Al, it is the hope of several of us that, by extending the guaranteed student loan to families that are in fact the customers and potential customers of the banks for other purposes, the guaranteed student loan will replace the electric toaster, the electric blanket as inducement for opening an account.

[Laughter.]

Mr. **Ford.** They say that will become the way in which an establishment maintains contact with families, instead of by offering free dishes.

I have ~~had some~~ conversations with credit union people who indicated that in the past the idea of student loans to their membership had not been particularly attractive. However, once we get into the kind of income level we are talking about, the pressure certainly would mount, now that their children were eligible, for them to become involved to an extent they have never been involved in student loans.

Mr. Quie. There may not be anything left for those who have lower incomes.

Mr. Ford. Thank you very much, Mr. Commissioner. As you can see, there is a lot of negotiating still to be done.

Commissioner Boyer. We will be available as you want us, Mr. Chairman. Thank you.

Mr. Ford. Tom, do you have these proposals?

Mr. Butts. Yes.

Mr. Ford. Mr. Lawrence Banyas and Mr. Charles Zuver, representing the American Bankers Association.

Without objection, the prepared statement will be included in full at this point in the record. You may proceed to add to it, defend yourself from our previous remarks, or make comments on it in any way you feel is most convenient.

[The prepared statement by Lawrence Banyas follows:]

Statement of the American Bankers Association

Mr. Chairman, members of the subcommittee, we appear here today on behalf of the American Bankers Association. I am Lawrence Banyas, senior economic consultant to the ABA. Accompanying me is Charles Zuver, legislative counsel, ABA.

The American Bankers Association has been actively involved in the Guaranteed Student Loan Program since its inception in 1965. The Association represents 92 percent of all commercial banks in the country. According to the latest available data, commercial banks hold approximately two-thirds of all outstanding Guaranteed Student Loans. Our attention is focused on section 3 of H.R. 10854, which amends title IV of the Higher Education Act of 1965.

The American Bankers Association supports H.R. 10854. We would, however, suggest one amendment to the bill. The amendment, and an explanation, are attached to this statement.

Section 3 of H.R. 10854, would: (1) increase from $25,000 to $40,000 the adjusted family income limit for entitling a student to have a portion of the interest on the loan paid by the Government; (2) permit an increase in the special allowance of up to .5 percent to lenders during times of repayment; (3) define period of repayment; and (4) place a floor of 1 percent for the special allowance.

Item (1), increasing the family income limit to $40,000, will make guaranteed student loans available to many students now virtually precluded. They come from families that are increasingly caught between the escalating cost of living and higher education costs. Thus, in many cases, these students need loans which lenders are unwilling to make unless they are subsidized by the government during the in-school and grace periods. This is not because they are poor risks, but only because of the enormous cost of paperwork involved in billing nonsubsidized students separately.

To have remained consistent with increases in the cost of living, a family income of $15,000 in 1965, when the program began, would now have to be $30,000. Many students in families with incomes between $30,000 and $40,000 would be denied loans if they were not subsidized.

We support items (2), (3), and (4) of section 3 which are all based squarely on the recommendations of the Committee on the Process of Determining Student Loan Special Allowances, established specifically for that purpose by Public Law 94-482, enacted in 1976.

AMENDMENT TO H.R. 10854

On page 5, line 19 strike out the phrase "eligible for deferral", and insert in lieu thereof, "deferred".

EXPLANATION OF AMENDMENT

Part of Sec. 3 of H.R. 10854, amends § 438(b)(2) of the Higher Education Act of 1965 (20 USC § 1087-1) to grant an increased special allowance of up to .5 percent per annum to lenders during times of loan repayments when lenders incur the greatest processing costs in administering their loans.

The apparent intent of section 3 is to retain the present lower special allowance during periods, when the borrower is in the armed forces or pursuing a course of study under a graduate fellowship program. However, even though loan payments are "eligible for deferral", borrowers, for reasons of their own, may elect not to use the deferral provided and continue to make loan payments. Therefore, the lower special allowance should only apply when payments on the loan are actually deferred.

We heartily endorse recent actions taken to improve the administration of the guaranteed student loan program. Changes recently instituted such as improved pre-claim assistance, timely payment on defaulted loans, elimination from the program of institutions that do not deliver on their promises to students, are most welcome.

In conclusion, we hope that when the final regulations are issued for the Education Amendments of 1976, that they will be clear and concise, and will not impose an undue burden upon students, educational institutions or lenders.

Thank you, Mr. Chairman. We will be happy to respond to your questions.

STATEMENT OF LAWRENCE BANYAS, SENIOR ECONOMIST, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION, ACCOMPANIED BY CHARLES ZUVER, LEGISLATIVE COUNSEL

Mr. Banyas. Mr. Chairman, we appear here today on behalf of the American Bankers Association. I am Lawrence Banyas, senior economic consultant to the association, and accompanying me is Charles Zuver, who is legislative counsel of the ABA.

The American Bankers Association has been actively involved in the guaranteed student loan program since its inception in 1965. The association represents some 92 percent of all commercial banks in the country. According to the latest available data, these banks hold approximately two-thirds of all outstanding GSL loans. Today our attention is focused on section 3 of H.R. 10854, which amends title IV of the Higher Education Act of 1965.

The American Bankers Association supports H.R. 10854. We would, however, suggest one amendment to the bill. The amendment, and an explanation, are attached to this statement.

Section 3 of H.R. 10854 would: (1) Increase from $25,000 to $40,000 the adjusted family income limit for entitling a student to have a portion of the interest on the loan paid by the Government; (2) permit an increase in the special allowance of 0.5 percent to lenders during times of repayment; (3) define the period of repayment; and (4) place a floor of 1 percent for the special allowance.

Item (1), increasing the family income limit to $40,000, will make guaranteed student loans available to many students now virtually precluded. They come from families that are increasingly caught between the escalating cost of living and higher education costs. Thus, in many cases, these students need loans which lenders are unwilling to make unless they are subsidized by the Government during the inschool and grace periods. This is not because they are poor risks, but only because of the enormous cost of paperwork involved in billing nonsubsidized students separately.

To have remained consistent with the increases in cost of living, a family income of $15,000 in 1965, when the program began, would now have to be $30,000. Many students in families with incomes between $30,000 and $40,000 would be denied loans if they were not subsidized.

We support items (2), (3), and (4) that I mentioned before, of section 3, which are all based squarely on the recommendations of the Committee on the Process of Determining Student Loan Special Allowances, established specifically for that purpose by Public Law 94-482, enacted in 1976.

We also heartily endorse recent action taken by the administration to improve the working of the guaranteed student loan program. Changes recently instituted—such as improved preclaim assistance, timely payment on defaulted loans, and elimination from the program of institutions that do not deliver on their promises to students—are all most welcome.

In conclusion, we hope that when the final regulations are issued for the Education Amendments of 1976, they will be clear and concise, and will not impose an undue burden upon students, educational institutions, or lenders.

Mr. Chairman, we will be happy to respond, if you have questions.

Mr. **Ford**. Thank you very much. I want to thank you and the American Bankers Association for the cooperation we have had from you in the discussions that have taken place over the past several months about the changes that were considered and are incorporated in this legislation. I think it is fair to say on the record that we appreciate the efforts that Mr. Zuver has put forth in working with our staff to reach an approach that would be understandable to the people we hope will respond to the changes in legislation, the members of your association, and other people in the business of lending money.

You have heard some of the questions this morning to the Commissioner about the possibility of removing the upper income limits entirely, as the Senate has already done in their subcommittee action last night. I wonder if you would care to comment on your reaction to taking the income limits off altogether. Bear in mind what Mr. Quie suggested might happen in terms of your more affluent customers lending you money to lend back to them at a reduced rate.

I might say bankers confuse me from time to time, how they manipulate money; but when I hear a farmer talk about how to manipulate money, I have to sit in absolute awe because they are the unequaled experts in it.

Mr. **Banyas**. My own opinion, not on behalf of the ABA, is, those people who want to do that might well be better off putting their money into bonds, rather than lending the money to banks. But that is merely a private opinion.

However, I do think that the Commissioner of Education was correct in saying that the extension would only have a marginal effect on the total number of people that would be affected. Moreover, I would like to make one other comment.

In my discussion with bankers—and I am not a banker myself, I am merely a consultant to the association—they view this program as a community assistance type of thing for the most part, not as a money-making proposition. I think you will find that when the chips are down, that most of the money will continue to go to needy families, rather than, as far as banks are concerned, to the more affluent upper echelons of the family income scale.

Mr. **Ford**. The suggestion has been made that there is danger in extending the program to all students because of the temptation to make loans to those most likely to repay.

Mr. **Banyas**. If you have a program where defaults are fairly promptly paid, that stops being a deterrent.

Mr. **Zuver**. Mr. Chairman, I think it is kind of interesting—all this discussion about lending to upper income families. The test in the beginning of this program is what the family adjusted income is, whether it is $14,000 or $40,000. So, the repayment actually comes with the student, and there is no security merely because your family has $40,000 and another has $6,000.

The lender really does not have any hold over the parent; there is no cosigner involved. So, I think the question probably ought to be looked at; but as far as discriminating against the lower income students, I think you would run into some problems as a lender if you wanted to sell that paper to Sallie Mae. There is a nondiscriminatory provision in there about class of borrowers. They could refuse to buy that paper, and banks have been using Sallie Mae.

Mr. **Ford**. Do you have any questions?

Mr. **Cross**. One question. Is there any evidence that the increase in the special allowances would in fact entice more lenders into the program?

Mr. **Banyas**. There may be some, particularly because of the terrific expense of paperwork in the repayment period. In conversations with people who are in the program, they find that quite arduous. Moreover, a lot of the smaller institutions have correspondents that do the work for them, and that is also expensive. There may be some inducement in this.

Mr. **Cross**. But you have no figures on how many lenders.

Mr. **Banyas**. No; we have made no survey of that.

Mr. **Cross**. The other change that is proposed here with respect to the special allowance is to put a floor of one percent on the special allowance.

Mr. **Banyas**. Yes.

Mr. **Cross**. Would it make any difference to a lending institution whether it was a special allowance floor of 1 percent, or an increase in the interest rate from 7 to 8 percent?

Mr. **Banyas**. I think, of course, that the 8 percent would probably be welcomed in some quarters. But I think that would naturally work a hardship on the borrowers. It seems to me it would make very little difference from the lender's point of view.

Mr. **Cross**. What would the difference in cost for the borrower be in going from 7 to 8 percent? It would just be $10 a year for a $1,000 loan; isn't that correct?

Mr. **Banyas**. That is correct.

Mr. **Cross**. Thank you, Mr. Chairman.

Mr. ZUVER. Chris, I would like to say one thing. I think that special allowance increase is going to be helpful, provided HEW continues to improve its cooperation with lenders.

Mr. CROSS. Have they been doing so?

Mr. ZUVER. They have indicated, and the Secretary has indicated, they are certainly making some efforts in that area; we hope that would be true.

Mr. CROSS. Thank you.

Mr. FORD. Thank you very much for your testimony today and for the assistance that you have provided in helping us develop this legislation.

Mr. BANYAS. Thank you.

Mr. FORD. Lois Rice, vice president of the College Entrance Examination Board.

Without objection the entire statement on behalf of the College Entrance Examination Board will be entered in full at this point in the record.

Before we start, Lois, I would like to thank you for the courtesy you extended to the committee and the previous witnesses by allowing them to go ahead out of turn because of the additional time that we took up this morning with the Commissioner and the witness before the Commissioner who had not previously been scheduled. I also want to thank you for your contribution throughout this past year to the philosophical base on which this legislation was built.

[The prepared testimony of Lois Rice follows:]

TESTIMONY OF LOIS DICKSON RICE, VICE PRESIDENT, COLLEGE ENTRANCE EXAMINATION BOARD

Mr. Chairman and members, my name is Lois Dickson Rice. I am a vice president of the College Entrance Examination Board. My field is policy analysis in higher education, with particular emphasis on the financing problems of students and their parents.

This is my first formal appearance before the subcommittee since Mr. Ford became its chairman. I want to express my congratulations to you, sir, and note the contributions you and others on the subcommittee have been making to improve the quality and funding of the programs under your jurisdiction. It has been and remains a pleasure to work with you and the staff of this subcommittee.

I am here today by invitation. I mention this because I am going to talk about some difficult, controversial and partisan issues, and the views I will express are my own. The College Board with about 3,000 member institutions--colleges, schools and school systems--has long been devoted to improving access to higher education, but it does not usually state a formal position on particular legislative proposals, and it has not done so in the case of H.R. 10854, the Middle Income Student Assistance Act, or any of the pending tuition tax credit bills. So I do not speak for The College Board today, but only for myself, and only because you and some of your colleagues have asked me to do so.

But before getting to specifics, I have a general observation. It is that I come here today with at least a twinge of regret over the fact that the main substantive problems in the current array of Federal student assistance programs have been crowded off the legislative agenda by a perceived crisis in college financing for middle-income students.

I wish the agenda could focus on the lack of coherence in the existing set of Federal programs to aid students. It would be an arduous task to overhaul those programs--and I include Social Security student benefits and veterans educational allowances as well as Office of Education programs--to make sure they mesh sensibly with each other and with state and institutional efforts, but the effort would be likely to pay great dividends.

In the last six years there has been an amazing increase in state scholarship aid, from $268 million in 23 states to $746 million in all states, but Congress has yet to review the implications of that increase. Similarly, I suggest it is of great importance to examine the BEOG program to see what impact it has had, not only on those who are eligible for basic grants, but in terms of shifting aid from other programs to higher-income students above the basic grant cut-off line. Yet another subject crying out for attention is that of educational loans. The Congress has been patching and tinkering with loan programs ever since 1958, and we have yet to achieve a condition in which students in similar circumstances, with similar needs, can be sure of obtaining similar (or any) loans, or in which there is a business-like and responsible system of ensuring repayment by those with the ability to repay.

Instead of talking about those kinds of problems or the lingering social, educational and economic problems that inhibit the participation of the poor in postsecondary education, the Congress is now looking at competing ways to channel more money to middle-income families with children in college. The issue is not whether to do so, but how much--with $1.2 billion being the starting figure--and how--by way of tax credits or by way of expanding eligibility for basic grants and Federally subsidized loans. The battle has been joined on these issues because of obvious political imperatives. Since it is the business of the people's elected representatives to detect and deal with political imperatives, Congress can scarcely be faulted for trying to do what it was elected to do: in this instance, to cope with a sensed protest on the part of middle-income college parents that they deserve some help from the Federal treasury.

But in dealing with the plight of any group in our society, it is helpful first to define the plight and then shape the remedy to match what the real trouble is. This is not what has occurred in the last six months as Congress has wrestled with the question of Federal aid for middle-income college parents. Rather, it first nearly decided on a remedy, a $250 tuition tax credit, before it had examined the problem, and now it is looking at another remedy, H.R. 10854, crafted to head off the enactment of a tax credit, with the exact problem still to be articulated. I applaud this subcommittee for having this set of hearings to inquire into the nature and severity of the financing plight of middle-income college parents.

There is not the slightest doubt that all except the very rich find it hard to put up the money for their children's college expenses. But hardship is relative. In the first place, 90 percent of all families at any given time have no children in college. For the 10 percent who do, the condition is not a permanent one. Furthermore, almost half (49 percent in 1976) of entering freshmen are in public 2-year colleges, with average tuition and fees this year of $389, and nearly a third (30 percent in 1976) are in public 4-year institutions, where this year's tuition and fees average $621. For the 21 percent who enter private institutions, the costs are significantly higher, with practically all of the total cost difference attributable to higher tuitions.

	Percent of all new Freshmen 1976	Average Tuition and Fees 1977-78	Average Other Costs 1977-78	Average Total Costs 1977-78
Public 2-year	48.7%	$ 389	$2,161	$2,550
Private 2-year	3.0	1,812	2,203	4,015
Public 4-year	30.3	621	2,285	2,906
Private 4-year	17.9	2,476	2,335	4,811

Source: NCES and CSS "Student Expenses, 1977-78".

The statistics I have just given you are averages. Like all averages, they suppress the extremes. So I also have a sampling of actual cases, showing for each state represented on this subcommittee the tuition and fees charged at a community college, at a state university and at a private institution in the same state. All the figures are for the 1977-78 school year.

State	Public 2-Year College	Public 4-Year University	Private 4-Year College
Alabama	$ 206	$ 645	$1,500 Tuskegee
Hawaii	90	478	1,900 Hawaii Loa
Illinois	261	712	3,825 U. of Chicago
Indiana	450	722	3,550 Notre Dame
Iowa	510	750	3,995 Grinnell
Kentucky	390	550	3,971 Berea
Michigan	336	928	3,055 Alma
Minnesota	450	850	3,050 St. Olafs
New Jersey	410	950	4,650 Princeton
New York	817	845	4,450 Cornell
Ohio	330	840	4,138 Oberlin
Pennsylvania	1,056	1,266	4,450 U. of Pennsylvania
Wisconsin	350	750	3,495 Ripon

Source: CSS

The point that emerges from these statistics is that the cost of attending college varies noticeably among the states and markedly between public and private institutions. The burden on families who put up those costs varies in the same ways.

Next I want to talk about trends. The proponents of Federal relief for middle-income college parents explain the need for prompt action by citing statistics showing that the cost of attending college has risen about 72 percent in the last 10 years and that the college enrollment rate of middle-income students has gone down in the same period. But just as with hardship, rising costs and declining enrollment rates are relative.

The Congressional Budget Office has demonstrated that family incomes of those with 18-24 year old dependents have been rising faster than college costs in the last decade, so that the percent of family income required to finance higher education has been declining rather than rising. This is not to say that the 1967 college financing burden was just right--there is no "just right" proportion in such matters--but there do appear to be far more obvious culprits for the pinch about which families are now complaining. For example, from 1967 to December 1977 food prices on average rose 96 percent, medical care 124 percent, household services (less rent) 121 percent, fuel oil 188 percent, and all items 86 percent--with college costs up about 72 percent.

As for the college enrollment rate decline among the children of middle income families, the facts seem to be that the decline from the peak year of 1969 to 1976 for children from high-income and low-income families was worse than that for middle-income children, and the recovery for high and low-income families in recent years has been proportionately less.

Family Income (1976 $)	Percent Enrolled Peak Year 1969	Low Year 1974	Latest Year 1976
$ 0 to $ 8,525	24.8%	20.3%	22.4%
8,525 to 17,050	38.8	31.7	36.3
17,051 to 25,575	50.6	41.4	47.5
25,576+	65.2	57.5	58.2
All Income Groups	41.3	36.2	38.8

Source: CBO

If there is a Federal subsidy argument to be made from these facts, it is stronger for helping the poor and the rich than it is for channeling money to middle-income parents, which only shows that statistics can be offered in support of almost any proposition. I think middle-income parents do have a problem, but in the attempt to do something about their plight, it is not necessary or useful to imply more than the statistics show, or to suggest that in our society it is tougher to be in the middle than it is to be at the bottom.

The last ten years have seen an enormous increase--262 percent according to CBO--in appropriated Federal aid per student, most of it targeted on low and moderate income students. This circumstance now gives rise to the thought in some quarters that enough is enough, the time has come to do something about the "left-out group", the hard-working tax-paying folks in the middle, the backbone of America, too rich to qualify for public handouts, too poor to afford the high cost of a first class education for their children.

Perhaps so. But the Congress should bear in mind that it is not alone in worrying about the plight of the middle-income group, and others have already moved to help that group.

For example, earlier I mentioned the tripling of state scholarship funds in the last six years--a half a billion dollar increase in grant monies. Along with that hefty dollar increase, there has been a marked shift in the proportion of state scholarships going to families with incomes over $15,000.

The shift varies from state to state, but in a 5-state sampling (accounting for 38 percent of the total dollars awarded), the participation of middle-income families has more than doubled.

	Percent Over $15,000		
	1973-74	1976-77	1977-78 (projected)
California	14.6%	38.5%	41.6%
Illinois	17.3	42.5	n/a
Michigan	20.3	49.4	59.1
New Jersey	19.9	37.7	n/a
Pennsylvania	2.3	23.9	n/a

Source: Study in progress at the Washington Office of The College Board.

Except in freakish circumstances, none of the over $15,000 families in either year could qualify for a BEOG. As the Federal program has provided more and more aid to lower-income students, the states have quite evidently reacted by putting more and more of their dollars into families too well-off to receive a Federal basic grant, yet still in need of some kind of help.

There is also evidence of an upward shift in the family incomes of students aided by institutional funds and by the Federal campus-based programs, SEOG, CWS and NDSL. My office is in the middle of a three-year study of the impact of the Federal programs and their interaction with state and institutional student aid programs, and I am not prepared today to use precise figures, but I can assert confidently that more and more governmental and institutional aid is already going to students from families above $15,000--that is, families in the upper income half of all American families.

A little over two years ago my organization, acting through the College Scholarship Service, put into effect a wholesale reduction in the levels of expected family contributions toward college costs. The necessary consequence was that hundreds of thousands of middle and upper-income families who (because of their incomes) were not previously qualified for aid found themselves eligible.

As a compromise to Basic Grants the Congress itself in 1972 broadened eligibility for the campus-based programs, and in 1976 made all students in the $20,000 to $31,000 family income range newly eligible for loans on which the Federal government pays all the interest while the borrower is in school.

Last but not least, a great many middle-income families have awarded themselves the equivalent of a $1,500 or $1,800 annual grant by choosing public over private institutions as the places to attend. In 1965, about 34 percent of all undergraduates attended private institutions. That percentage fell to 26 in 1970 and to 22 last year.

The result of all these forces at work is that while the average burden of college going costs is significant, it is overstating the case to assert that actual parental contributions are a crushing load for the middle-income group or for any other group from which we expect a family contribution to the cost of attendance. According to studies performed by Joseph Froomkin, Director of the Educational Policy Research Center for Higher Education, the 1976 burden ranged between 10 and 12 percent of after-tax income for all families above $7,500.

Family Contributions As a Percent of After-Tax Income, 1976

Income	Contribution Rate
$ 7,500 to $12,000	10.1
12,001 to 15,000	11.0
15,001 to 20,000	12.1
20,001 to 25,000	12.2
25,000+	10.4

From all the information available to me, I simply am unable to generalize about the plight of middle-income families with children in college. Some are facing very difficult problems. Some are not. Some of those with problems have them because their children elected high-cost private institutions instead of lower-cost public ones.

Some of those without financing problems are in that position because their children are in nearby community colleges instead of the state university 100 miles away. I doubt very much whether it is the role of the Federal government--or within its ability--to equalize the money consequences of all those different choices by all those different families.

But there is evidently about or at least $1.2 billion in additional Federal aid that the Administration and the Congress are willing to put into postsecondary financial assistance, either for students or their parents or both in the 1979-80 school year, over and above the increase that will result from funding maximum basic grants at $1,800 instead of $1,600. This is welcome news indeed.

If the question of how to distribute that extra $1.2 billion is an open one, then I suggest that it would be realistic and useful to target the money on people with actual unusual college cost burdens, poor people before less poor people, middle-income people with children in high-cost institutions before those with children in low-cost colleges, people with two children in college before people with only one, and so on.

What I would not do is take the $1.2 billion and scatter it broadside in uniform small amounts.

That said, I turn now to a discussion of H.R. 10854 and a comparison of that proposal with the tuition tax credit concept.

The most notable feature of H.R. 10854 is that it repeals the existing provision of law that cancels all BEOG awards under $200 and replaces it with a provision that any award less than $250 will be boosted to $250, with all families between $16,000 and $25,000 to receive the same $250 award.

The question then occurs, how does the $250 flat basic grant differ from a $250 tuition tax credit so far as a $16,000 to $25,000 family is concerned?

One difference is that the grant is available at the start of the school year, and it is real; it is not put off until the following spring, as is a tax credit, and it is not lost sight of in the pluses and minuses leading to the calculation of one's final income tax liability.

A second difference is that the basic grant is counted directly against the cost of attendance, reducing it dollar for dollar, whereas some of any tax credit would be siphoned off in standard needs analysis procedures, so that with a $24,000 family, for example, a $250 tax credit would mean $175 effective relief, not $250 worth. The only families that would not experience this devaluation of a tax credit would be those who by CSS or similar standards were judged not to need any grant aid at all.

Another difference is that basic grants will presumably continue to be channeled through the institutions the students are attending, whereas tax credits would be "administered" by families. This in turn is likely to lead to two more differences:

- institutions can easily guard 100 percent against making grants to phantom students, whereas the IRS cannot readily detect fraudulent tuition tax credits, nor ever hope to catch all of them.
- many students in the $16,000 to $25,000 range are now borrowing from institutional funds and holding campus jobs. Making them eligible for a $250 basic grant

> will reduce their need to borrow and work. Even if the reduction is only modest, some loan funds and jobs will be freed up for other students with financial need. A tax credit system would not have as strong or as helpful a ripple effect.

Another difference is that application for a Basic Grant, even using the simplified form anticipated for the flat grant, will put families into the pool of eligibles for other types of aid.

All of the tax credit proposals I have seen have been tied to tuition costs only, and typically to net tuition costs after subtracting GI Bill benefits and other forms of grant aid, including state scholarships, whereas H.R. 10854 has no comparable "now you see it, now you don't" clause. So another difference for the $16,000 to $25,000 family between an H.R. 10854 grant and a tax credit of $250 is that the family would be sure to get the former and not sure to get the latter.

Still another difference between H.R. 10854 and proposals for a refundable tax credit of $250 is the distribution of benefits to students at differing types of institutions. Proponents of tax credits claim that they wish to preserve and enhance the diversity of postsecondary education by aiding students in independent colleges and universities.

Preliminary estimates of the Washington Office show that the private sector would receive a substantially larger proportion of the grants under H.R. 10854 than under a tax credit scheme if it were enacted this year.

Distribution of Basic Grants in H.R. 10854
(By type of institution)
Percent

	BEOG	Guarantee	Total
Public 4-Year	52%	42%	46%
Public 2-Year	26	18	21
Private 2&4 Year	22	40	33

Distribution of Refundable Tax Credit
(By type of institution)
Percent

	1976 Enrollments
Public 4-Year	49.8%
Public 2-Year	26.0
Private 2&4 Year	24.2

These differences that I have listed are all real differences that should enter into the Congressional decision about what mechanism to use in delivering more aid to the $16,000 to $25,000 group.

There are also real differences generally between a grant system and a tax credit system. I will leave to others a discussion of the tax policy issues presented by tuition tax credits, and of the contrast between a system administered by Office of Education and college bureaucrats and one administered by taxpayers and IRS bureaucrats. Those kinds of questions involve philosophies and ideologies on which reasonable people differ, and their differences will remain no matter how the current controversy turns out.

But what I do want to mention are several points of difference that concern me as one who has spent nearly 20 years worrying about higher education financing issues and the role of the Federal government in their resolution.

It seems to me that H.R. 10854 separates things that are in fact separate: the Federal role in higher education and the Federal role in financing primary and secondary schooling. Tuition tax credits do not make that clear separation of separate things. As proposed in the Packwood-Moynihan bill, they raise difficult and passionate primary and secondary school questions which ought to be dealt with forthrightly and on their own merits, not as piggy-back adjuncts to a plan to ease college tuition burdens.

The existing package of Federal postsecondary student assistance programs, while it has some problems to which I have already adverted, is nevertheless well designed and in place. If more money is available for postsecondary student aid, it should be added to the existing mechanisms. Adding yet another mechanism--tax credits--strikes me as unquestionably unnecessary.

The kindergarten through high school situation is different. There is no present Federal role in aiding students and their families directly, and so there are no mechanisms in place to deliver such aid. If Congress decides to help families that educate their children outside the public school systems of the country, then tax credits would be one of the delivery systems it surely can consider. Passage of H.R. 10854 or any other bill to put more Federal money into the current postsecondary aid mechanisms will not preclude passing a tax credit for elementary and secondary tuition charges, if that is what Congress wants to do.

Another aspect of tax credits that troubles me so far as higher education is concerned is their perceived impact on tuition differentials between public and private institutions. A curious facet is that some learned scholars insist that tax credits will favor public institutions while other equally learned scholars insist that private institutions will be more advantaged. I do not know which version is the correct one. But I do suggest that the Federal government should not blunder into the tuition differential controversy by inadvertence--and yet that is exactly what I fear would be the consequence of enacting higher education tuition tax credits. The same would not be the case with H.R. 10854.

There is one contrast often drawn between tax credits and a higher basic grant ceiling that I find more amusing than serious.

Tax credit proponents are fond of pointing out the complexity of the BEOG application form and comparing it with the alleged simplicity of the paper work involved in claiming a tax credit. Anyone who has filed a Form 1040 and its accompanying schedules knows that nothing the IRS gets it hands on is simple--because the tax laws are complicated, and tax credits are complicated, and therefore the instructions and the forms have got to be complicated. I fail to see the advantage of making the 1040 even more complicated for 90 million taxpayers so that 3 or 4 million can get a tuition tax credit, when those same 3 or 4 million can be asked to cope with an BEOG application and so not impose complexities on the 85 million or so who would not benefit from tuition tax credits.

For all these reasons, if the choice lies between H.R. 10854 and a tuition tax credit, then it seems the former is much the better course. There are some aspects of the bill that ought to be clarified, particularly the proposed changes for basic grants.

What is the minimum grant for independent and part-time students? For full-time dependent students it is $250, but the bill is silent on the minimum for most independent students and all part-time students.

What happens to grants at less than full funding of the program? In his FY 1979 Budget submission the President requested full funding of $1,800 grants for currently eligible students. H.R. 10854 adds nearly 3 million new students to the Basic Grants Program, mostly from families with incomes above $16,000, and guarantees them at least $250. Hence if appropriations fall short of full funding any reduction in awards would necessarily hit low and moderate-income students while leaving the above $16,000 group untouched. No gesture of sympathy for middle-income students should break the promise already made to students below $16,000. This leads me, therefore to the belief that either BEOGs should be made a true entitlement for all current and newly eligible students or else the $250 guarantee must be abandoned. Short of an entitlement the "core program" should be fully funded before monies are made available to support the new flat grants. This could be accomplished either by placing still another trigger or funding threshold in the program or by having two separate authorizations. Both of these alternatives, however, ~~denies~~ alters the guarantee in the current bill.

But let's hope and assume for a moment that the program is fully funded. Eligible students above $16,000 all receive $250 regardless of family ability to pay and regardless of costs of attendance. For these students the combination of grant and parental contribution could well exceed the $1,800 BEOG maximum while for lower-income students the grant cannot exceed the lesser of $1,800 or half the costs of attendance. If $250 is guaranteed to high-income students regardless of costs, then shouldn't it be guaranteed to all students and on the same terms. For example, a student eligible for the maximum $1,800 grant who attends a $2,000 institution should have $250 protected against the half-cost rule; instead of a $1,000 BEOG, he or she would, therefore, receive $1,250--a small concession, in my view, towards reducing the persistent inequity of the half-cost limitation.

By now it should be clear that I indeed favor the approach in H.R. 10854 over tax credits, but I am troubled by aspects of the revised BEOG program, particularly at less than full funding--troubled too that [redacted] families $16,000 to $25,000 are treated similarly though they are dissimilar. (And one can predict that over time there will be a strong temptation to raise the income ceiling thereby increasing the number of flat grants.)

If this subcommittee is committed to "relieving" the middle class, that can best be achieved by varying the grant amounts with need and concentrating meaningful sums of money on a smaller population rather than piddling sums on a huge population. Using Senator Pell's approach or the Uniform Methodology for 1979-80 would phase the grant amounts down to the minimum at about a $21,000-$22,000 level where there is some demonstratable need, [redacted].

A caution-all of us who have played with BEOG models and cost estimates for this program would have to admit that these are, in fact, estimates, and no specific tax rate or system assures a definite outcome. I, therefore, urge that you give the Commissioner the necessary flexibility to fill in the technical details for a contribution schedule calculated to bring about the Congressionally desired outcomes. This has worked well in the past; as the Congress, represented by this Committee, has had an opportunity annually to see that the technical details support rather than defeat the statutory goals.

Two final comments on H.R. 10854. In lieu of substantive revisions in the loan programs I applaud the efforts of this subcommittee for making the GSL Program available to higher-income families who wish to spread the costs of education over time. These newly eligible and wealthier families, however, could be so attractive to banks that less well off potential borrowers may be crowded out--an issue that should be reviewed with great care next year when you reconsider this legislation.

I also wish to commend the sponsors of the bill and the Administration for proposing increased authorizations for the SEOG program for FY 1980. By then the Congress and the Administration should have an opportunity to review and revise this valuable program and along with the SSIG Program use it to foster institutional choice among students and to enhance the diversity of our postsecondary system.

STATEMENT OF LOIS RICE, VICE PRESIDENT, COLLEGE ENTRANCE EXAMINATION BOARD, WASHINGTON, D.C.

Ms. Rice. Thank you, Mr. Chairman. This is my first formal appearance before the subcommittee since you, Mr. Ford, became its chairman. I want to express my congratulations to you, sir, and note the contributions you and others on the subcommittee have been making to improve the quality and funding of the programs under your jurisdiction. It has been and remains a pleasure to work with you and the excellent staff of this subcommittee.

I am here today by invitation. I mention this because I am going to talk about some difficult, controversial and partisan issues, and the views I will express are my own. The College Board with about 3,000 member institutions—colleges, schools, and school systems—has long been devoted to improving access to higher education and equal educational opportunity, but it does not usually state a formal position on particular legislative proposals, and it has not done so in the case of H.R. 10854, or any of the pending tuition tax credit bills. So, I do not speak for the College Board today, but only for myself and only because you and some of your colleagues have asked me to do so.

Before getting to specifics, I have a general observation. It is that I come here today with at least a twinge of regret over the fact that the main substantive problems in the current array of Federal student assistance programs have been crowded off the legislative agenda by a perceived crisis in college financing for middle-income students.

I truly wish the agenda could focus on the lack of coherence in the existing set of Federal programs to aid students. It would be an arduous task to overhaul those programs—and I include Social Security student benefits and veterans educational allowances as well as the Office of Education programs—to make sure they mesh sensibly with each other and with State and institutional efforts, but the effort would be likely to pay great dividends.

In the last 6 years there has been an amazing increase in State scholarship aid, from $268 million in 23 States to $746 million in all States, but Congress has yet to review the implications of that increase for federal policy. Similarly, I suggest it is of great importance to examine the BEOG program to see what impact it has had, not only on those who are eligible for basic grants, but in terms of shifting aid from other programs to higher-income students above the basic grant cutoff line. Yet another subject crying out for attention is that of educational loans. The Congress has been patching and tinkering with loan programs ever since 1958, and we have yet to achieve a condition in which students in similar circumstances, with similar needs, can be sure of obtaining similar—or any—loans, or in which there is a business-like and responsible system of insuring repayment by those with the ability to pay.

Instead of talking about those kinds of issues or the lingering social, educational and economic problems that still inhibit the participation of low-income students in post-secondary education, the Congress is now looking at competing ways to channel more money to middle-income families with children in college. The issue is not whether to do so, but how much—with $1.2 billion being the starting figure—and how—by way of tax credits or by way of expanding eligibility for basic grants and federally subsidized loans? The battle has been joined on these issues because of obvious political imperatives. Since it is the business of the people's elected representatives to detect and deal with political imperatives, Congress can scarcely be faulted for trying to do what it was elected to do: in this instance, to cope with a sensed protest on the part of the middle-income college parents that they deserve some help from the Federal treasury.

But in dealing with the plight of any group in our society, it is helpful first to define the plight and then shape the remedy to match what the real trouble is. This is not what has occurred in the last 6 months as Congress has wrestled with the question of Federal aid for middle-income college parents. Rather, it first nearly decided on a remedy, a $250 tuition tax credit, before it had examined the problem, and now it is looking at another remedy, H.R. 10854, crafted to head off the enactment of a tax credit, with the exact problem still to be articulated. I applaud this subcommittee for having this set of hearings to inquire into the nature and severity of the financing plight of middle-income college parents.

There is not the slightest doubt that all except the very rich find it hard to put up the money for their children's college expenses. But hardship is relative. In the first place, 90 percent of all families at any given time have no children in college. For the 10 percent who do, the condition is not a permanent one. Furthermore, almost half—49 percent in 1976—of entering freshmen are in public 2-year colleges, with average tuition and fees this year of $389; and nearly a third—30 percent in 1976—are in public 4-year institutions, where this year's tuition and fees average $621. For the 21 percent of freshmen who enter private institutions, the costs are significantly higher, with practically all of the total cost different attributable to higher tuitions.

[Table follows:]

	Percent of all new freshmen, 1976	Average tuition and fees, 1977–78	Average other costs, 1977–78	Average, total costs, 1977–78
Public 2 yr	48.7	$389	$2,161	$2,550
Private 2 yr	3.0	1,812	2,203	4,015
Public 4 yr	30.3	621	2,285	2,906
Private 4 yr	17.9	2,476	2,335	4,811

Source: NCES and CSS "Student Expenses, 1977–78".

Ms. Rice. The statistics I have just given you are averages, and like all averages, they suppress the extremes. So, I also have a sampling of actual cases in my testimony, showing for each State represented on this subcommittee the tuition and fees charged at a community college, at a State university, and at a private institution in the same State. All the figures are for the 1977–78 school year.

[Table follows:]

State	Public 2-yr college	Public 4-yr university	Private 4-yr college	
			Amount	College
Alabama	$206	$645	$1, 500	Tuskegee.
Hawaii	90	478	1, 900	Hawaii Loa.
Illinois	261	712	3, 825	University of Chicago.
Indiana	450	722	3, 550	Notre Dame.
Iowa	510	750	3, 995	Grinnell.
Kentucky	390	550	3, 971	Berea.
Michigan	336	928	3, 055	Alma.
Minnesota	450	850	3, 050	St. Olafs.
New Jersey	410	950	4, 650	Princeton.
New York	817	845	4, 450	Cornell.
Ohio	330	840	4, 138	Oberlin.
Pennsylvania	1, 056	1, 266	4, 450	University of Pennsylvania.
Wisconsin	350	750	3, 495	Ripon.

Source: CSS.

Ms. Rice. The point that emerges from these statistics is that the cost of attending college varies noticeably among the States and markedly between public and private institutions. The burden on families who put up those costs varies in the same ways.

Next I want to talk briefly about trends. The proponents of Federal relief for middle-income college parents explain the need for prompt action by citing statistics showing that the cost of attending college has risen about 72 percent in the last 10 years, and that the college enrollment rate of middle-income students has gone down in the same period. But just as with hardship, rising costs, and declining enrollment rates are relative.

The Congressional Budget Office has demonstrated that family incomes of those with 18- to 24-year-old dependents have been rising faster than college costs in the last decade, so that the percent of family income required to finance higher education has been declining rather than rising. This is not to say that the 1967 college financing burden was just right—there is no "just right" proportion in such matters, but there do appear to be far more obvious culprits for the pinch about which families are now complaining. For example, from 1967 to December 1977 food prices on average rose 96 percent, medical care 124 percent, household services (less rent), 121 percent; fuel oil costs 188 percent, and all items 86 percent with college costs up about 72 percent.

As for the college enrollment rate decline among the children of middle-income families, the facts seem to be that the decline from the peak year of 1969 to 1976 for children from high-income and low-income families was worse than that for middle-income children, and the recovery for high- and low-income families in recent years has been proportionally less.

[Table follows:]

Family income (1976 dollars)	Percent enrolled		
	Peak year, 1969	Low year, 1974	Latest year, 1976
0 to $8,525	24.8	20.3	22.4
$8,526 to $17,050	38.8	31.7	36.3
$17,051 to $25,575	50.6	41.4	47.5
$25,576 and over	65.2	57.5	58.2
All income groups	41.3	36.2	38.8

Source: CBO.

Ms. Rice. If there is a Federal subsidy argument to be made from these facts, it is stronger for helping the poor and the rich than it is for channeling money to middle-income parents, which only shows that statistics can be offered in support of almost any proposition. I think middle-income parents do have a problem, but in the attempt to do something about their plight, it is not necessary or useful to imply more than the statistics show, or to suggest that in our society it is tougher to be in the middle than it is to be at the bottom.

The last 10 years have seen an enormous increase—262 percent according to CBO—in appropriated Federal aid per student, most of it targeted on low- and moderate-income students. This circumstance now gives rise to the thought in some quarters that enough is enough, the time has come to do something about the "left-out group," the hard-working taxpaying folks in the middle, the backbone of America, too rich and too proud to get public handouts, too poor to afford the high cost of a first-class education for their children.

Perhaps so. But the Congress should bear in mind that it is not alone in worrying about the plight of the middle-income group, and others have already moved to help that group.

For example, earlier I cited the tripling of State scholarship funds in the last 6 years—a half-billion-dollar increase in grant moneys. Along with that hefty dollar increases, there has been a marked shift in the proportion of State scholarships going to families with incomes above $15,000.

The shift varies from State to State, but in a five-State sampling (accounting for 38 percent of the total dollars awarded), the participation of middle-income families has more than doubled between 1974 and 1977.

[Table follows:]

	Percent over $15,000		
	1973–74	1976–77	1977–78 (projected)
California	14.6	38.5	41.6
Illinois	17.3	42.5	NA
Michigan	20.3	49.4	59.1
New Jersey	19.9	37.7	NA
Pennsylvania	2.3	23.9	NA

Source: Study in progress at the Washington Office of the College Board.

Ms. Rice. Except in freakish circumstances, none of the over $15,000 families in the State scholarship programs in either year could qualify for a BEOG. As that Federal program has provided more and more aid to lower income students, the States have quite evidently reacted by putting more and more of their dollars into families too well-off to receive a Federal basic grant, yet still in need of some kind of help.

There is also evidence of an upward shift in the family incomes of students aided by institutional funds and by the Federal campus-based programs, SEOG, CWS, and NDSL. My office is in the middle of a 3-year study of the impact of the Federal programs and their interaction with State and institutional student aid programs, and while I am not prepared today to use precise figures, I can assert confidently that more and more governmental and institutional aid is already going to students from families above $15,000—that is, families in the upper income half of all American families.

A little over 2 years ago my organization, acting through the College Scholarship Service, put into effect a wholesale reduction in the levels of expected family contributions toward college costs. The necessary consequence was that hundreds of thousands of middle- and upper-income families who (because of their incomes) were not previously qualified for aid found themselves eligible.

As a compromise to help secure basic grants, the Congress in 1972 broadened eligibility for the campus-based programs, and in 1976 made all students in the $20,000 to $31,000 family income range newly eligible for loans on which the Federal Government pays all the interest while the borrower is in school.

Last but not least, a great many middle-income families have awarded themselves the equivalent of a $1,500 or $1,800 annual grant by choosing public over private institutions as places to attend. In 1965 about 34 percent of all undergraduates attended private institutions; that percentage fell to 26 in 1970, and to 22 percent last year.

The result of all these forces at work is that while the average burden of college-going costs is significant, it is overstating the case to assert that actual parental contributions are a crushing load for the middle-income group or for any other group from which we expect a family contribution to the cost of attendance. According to studies performed by Joseph Froomkin, director of the Educational Policy Research Center for Higher Education, the 1976 burden ranged between 10 and 12 percent of aftertax income for all families above $7,500.

[Table follows:]

Family contributions as a percent of aftertax income, 1976

Income	*Contribution rate*
$ 7,500 to $12,000	10.1
$12,001 to $15,000	11.0
$15,001 to $20,000	12.1
$20,001 to $25,000	12.2
$25,001 and over	10.4

Ms. Rice. From all the information available to me, I simply am unable to generalize about the plight of middle-income families with children in college. Some are facing very difficult problems. Some are not. Some of those with problems have them because their children elected high-cost private institutions instead of lower-cost public ones.

Some of those without financing problems are in that position because their children are in a nearby community college instead of the State university some hundred miles away. I doubt very much whether it is the role of the Federal Government—or within its ability—to equalize the money consequences of all those different choices by all those different families.

But there is evidently about or at least $1.2 billion in additional Federal aid that the administration and the Congress are willing to put into postsecondary financial assistance, either for students or their parents, or both, in the 1979-80 school year, over and above the increase that will result from funding maximum basic grants at $1,800 instead of $1,600. This is welcome news indeed.

If the question of how to distribute that extra $1.2 billion is an open one, then I suggest that it would be realistic and useful to target the money on people with actual unusual college cost burdens, poor people before less poor people, middle-income people with children in high-cost institutions before those with children in low-cost colleges, people with two children in college before people with only one, and so on.

What I would not do is take the $1.2 billion and scatter it broadside in uniform small amounts.

That said, I turn now to a discussion of H.R. 10854 and a comparison of that proposal with the tuition tax credit concept.

The most notable feature of H.R. 10854 is that it repeals the existing provision of law that cancels all BEOG awards under $200 and replaces it with a provision that any award less than $250 will be boosted to $250, with all families between $16,000 and $25,000 to receive the same $250 award.

The question then occurs, how does the $250 flat basic grant differ from a $250 tuition tax credit so far as the $16,000 to $25,000 family is concerned?

One difference is that the grant is available at the start of the school year, and it is real; it is not put off until the following spring, as is a tax credit; and it is not lost sight of in the pluses and minuses leading to the calculation of one's final income tax liability.

A second difference is that the basic grant is counted directly against the cost of attendance, reducing it dollar for dollar, whereas some of any tax credit would be siphoned off in standard needs analysis procedures, so that with the $24,000 family, for example, a $250 tax credit would mean $175 of effective relief, not $250 worth. The only families that would not experience this devaluation of a tax credit would be those who by CSS or similar standards were judged not to need any grant aid at all.

Another difference is that basic grants will presumably continue to be channeled through the institutions the students are attending, whereas tax credits would be "administered" by families. This in turn is likely to lead to two more differences:

Institutions can easily guard 100 percent against making grants to phantom students, whereas the IRS cannot readily detect fraudulent tuition tax credits, nor ever hope to catch all of them.

Many students in the $16,000 to $25,000 range are now borrowing from institutional funds and holding campus jobs. Making them eligible for a $250 basic grant will reduce their need to borrow and work. Even if the reduction is only modest, some loan funds and jobs will be freed up for other students with financial need. A tax credit system would not have as strong or as helpful a ripple effect.

Another difference is that application for a basic grant, even using the simplified form anticipated for the flat grant, will put families into the pool of eligibles for other types of aid.

All of the tax credit proposals I have seen have been tied to tuition cost only, and typically to net tuition cost after subtracting GI bill benefits and other forms of grant aid, including state scholarships, whereas H.R. 10854 has no comparable "now you see it, now you don't" clause. So, another difference for the $16,000 to $25,000 family between an H.R. 10854 grant and a tax credit of $250 is that the family would be sure to get the former and not sure to get the latter.

Still another difference between H.R. 10854 and proposals for a refundable tax credit of $250 is the distribution of benefits to students at different types of institutions. Proponents of tax credits claim that they wish to preserve and enhance the diversity of postsecondary education by aiding students in independent colleges and universities, but preliminary estimates of the College Board's Washington office show that the private sector would receive a substantially larger proportion of the grants under H.R. 10854 than under a tax credit scheme if it were enacted this year.

[Table follows:]

[In percent]

Institution	BEOG [1]	Guarantee [1]	Total [1]	1975 enrollments [2]
Public 4 yr	52	42	46	49.8
Public 2 yr	26	18	21	26.0
Private 2 and 4 yr	22	40	33	24.2

[1] Distribution of basic grants in H.R. 10854.

[2] Distribution of refundable tax credit.

Ms. RICE. These differences that I have listed are all real differences that should enter into the congressional decision about what mechanism to use in delivering more aid to the $16,000 to $25,000 group.

There are also real differences generally between a grant system and a tax credit system. I will leave to others a discussion of the tax policy issues presented by tuition tax credits, and of the contrast between a system administered by Office of Education and college bureaucrats, and one administered by taxpayers and IRS bureaucrats. Those kinds of questions involve philosophies and ideologies on which reasonable people will differ, and their differences will remain no matter how the current controversy turns out.

But what I do want to mention are several points of difference that concern me as one who has spent nearly 20 years worrying about higher education financing issues and the role of the Federal Government in their resolution.

It seems to me that H.R. 10854 separates things that are in fact separate: The Federal role in higher education and the Federal role in financing primary and secondary schooling. Tuition tax credits do not make that clear separation of separate things. As proposed in the Packwood-Moynihan bill, they raise difficult and passionate primary and secondary school questions which ought to be dealt with forthrightly and on their own merits, not as piggyback adjuncts to a plan to ease college tuition burdens.

The existing package of Federal postsecondary student assistance programs, while it has some problems to which I have already adverted, is nevertheless well designed and in place. If more money is available for postsecondary student aid, it should be added to the existing mechanisms. Adding yet another mechanism—tax credits—strikes me as unquestionably unnecessary.

The kindergarten through high school situation is different. There is no present Federal role in aiding students and their families directly, and so there are no mechanisms in place to deliver such aid. If Congress decides to help families that educate their children outside the public school systems of the country, then tax credits would be one of the delivery systems it surely can consider. Passage of H.R. 10854 or any other bill to put more Federal money into the current postsecondary aid mechanisms will not preclude passing a tax credit for elementary and secondary tuition charges, if that is what Congress wants to do.

Another aspect of the tax credits that troubles me so far as higher education is concerned is their perceived impact on tuition differentials between public and private institutions. A curious facet is that some learned scholars insist that tax credits will favor public institutions, while other equally learned scholars insist that private institutions will be more advantaged. I do not know which version is the correct one. But I do suggest that the Federal Government should not blunder into the tuition differential controversy by inadvertence—and yet, that is exactly what I fear would be the consequence of enacting higher education tuition tax credits. The same would not be the case for H.R. 10854.

There is one contrast often drawn between tax credits and a higher basic grant ceiling that I find more amusing than serious. Tax credit proponents are fond of pointing out the complexity of the BEOG application form and comparing it with the alleged simplicity of the paperwork involved in claiming a tax credit. Anyone who has filed a form 1040 and its accompanying schedules knows that nothing the IRS gets its hands on is simple because the tax laws are complicated, and tax credits are complicated; and therefore, the instructions and the forms have got to be complicated. I fail to see the advantage of making the 1040 even more complicated for 90 million taxpayers so that the 3 or 4 million can get a tuition tax credit, when those same 3 or 4 million can be asked to cope with the BEOG application and so not impose complexities on the 85 million or so who would not benefit from tuition tax credits.

For all these reasons, if the choice lies between H.R. 10854 and a tuition tax credit, it seems to me the former is much the better course. There are some aspects of the bill that ought to be clarified, particularly the proposed changes for basic grants.

What is the minimum grant for independent and part-time students? For full-time dependent students, it is $250, but the bill is silent on the minimum for most independent students and all part-time students.

What happens to grants at less than full funding of the program? In his fiscal year 1979 budget submission, the President requested full funding of $1800 grants for currently eligible students. H.R. 10854 adds nearly 3 million new students to the basic grants program, mostly from families with incomes above $16,000, and guarantees them at least $250. Hence, if appropriations fall short of full funding, any reduction in awards would necessarily hit low- and moderate-income students while leaving the above $16,000 group untouched. No gesture of sympathy for middle-income students should break the promise already made to students below $16,000.

This leads me, therefore, to the belief that either BEOG's should be made a true entitlement for all current and newly eligible students, or else the $250 guarantee must be abandoned. Short of an entitlement, the "core program" should be fully funded before moneys are made available to support the new flat grants. This could be accomplished either by placing still another trigger or funding threshold in the program, or by having two separate authorizations. Both of these alternatives, however—as well as the one suggested by the Commissioner this morning—deny the guarantee in the current bill.

But let's hope and assume for a moment that the program is fully funded. Eligible students above $16,000 all receive $250 regardless of family ability to pay, and regardless of costs of attendance. For these students, then, the combination of grant and parental contribution could well exceed the $1,800 BEOG maximum, while for lower-income students the grant cannot exceed the lesser of $1,800, or half the cost of attendance. If $250 is guaranteed to high-income students regardless of costs, then should it not be guaranteed to all students, and on the same terms? I suggest that a student eligibile for the maximum $1,800 grant who attends a $2,000 institution should have $250 protected against the half-cost rule; instead of a $1,000 BEOG, he or she would therefore receive $1,250, a small concession, in my view, toward reducing the persistent inequity of the half-cost provision in the program.

By now it should be clear that I indeed favor the approach in H.R. 10854 over tax credits, but I am troubled by aspects of the revised BEOG program, particularly at less than full funding—troubled, too, that $16,000 to $25,000 families are treated similarly, though they are dissimilar, and parental contribution plays no role in determining the amount of a grant, for some people, at least. (And one can predict that over time there will be a strong temptation to raise the income ceiling for eligibility and the flat grant amounts, or both.)

If this subcommittee is committed to aiding the middle class, that can best be achieved by varying the grant amounts according to need and concentrating meaningful sums of money on a smaller population, rather than piddling sums on a huge population. Using Senator Pell's approach or the uniform methodology for 1979–80 would phase the grant amounts down to the minimum at about a $21,000 to $22,000 income level where there really is some demonstrated need.

A caution. All of us who have played with BEOG models and cost estimates for this program would have to admit that these are, in fact, estimates, and no specific tax rate or system assures a definite outcome—whether it is a 10-percent rate, a 12- or 14-percent rate, or a 20 to 30 rate. I therefore urge that you give the Commissioner the necessary flexibility to fill in the technical details for a contribution schedule calculated to bring about the congressionally desired outcomes. This has worked well in the past, as the Congress, represented by this subcommittee, has had an opportunity annually to see that the technical details support rather than defeat the statutory goals.

Two final comments on H.R. 10854. In lieu of substantive revisions in the loan programs, I applaud the efforts of this subcommittee for making the GSL interest subsidies available for higher income families who wish to spread the costs of education over time. These newly eligible and wealthier families, however, could be so attractive to banks that less well off potential borrowers may be crowded out—an issue that should be reviewed with great care next year when you reconsider the higher education legislation.

I also wish to commend the sponsors of the bill and the administration for proposing increased authorizations for the SEOG program for fiscal year 1980. By then the Congress should have an opportunity to review and revise this valuable program and along with the SSIG program use it to foster institutional choice among students and to enhance the diversity of our post-secondary system.

Mr. Chairman, I would be delighted to answer any questions that you might have.

Mr. FORD. Thank you very much.

While you were testifying, I was handed a memorandum that I am sure you would be interested in. The Senate Finance Committee this morning attached to an innocuous little bill a $5 billion tax credit package, which is more generous than perhaps the one that we have been engaged in. It now appears the committee has escalated its ante because rather than argue Roth versus Moynihan-Packwood, they have adopted both and say that for the first year you will have the Roth $250 tax credit, and thereafter you will have the Packwood-Moynihan $500 tax credit. They estimate it is only going to cost $5.2 or $5.3 billion by 1983.

Obviously, the President will not need a new Office of Education because the IRS will be running all the education programs. [Laughter.]

They tell me this was reported out of committee 14 to 1, and 1. One of them stayed with this. But it is obvious there is a race on in the other body to see who gets to the floor first, now, Mr. Pell's bill, or Mr. Long's bill.

Ms. RICE. If it is any consolation, Mr. Chairman, that "other body" has had a long history of passing tuition tax credits.

Mr. FORD. Well, it is going to be an interesting period around here, I am sure of that.

I appreciate very much the frankness of your critique of this legislation. I am sure you know that many of us share in your concerns. Certainly, your experience around the Congress makes it possible for you to understand the political imperatives that we find ourselves involved in.

I suppose almost anything that the Congress does can be characterized by someone as an expedient reaction to current public feeling. However, there is another aspect to this whole question of getting support for middle-income students, which is important not only at the higher education level, but at the elementary and secondary level. That is the problem of public support for public support. How long can a Member of Congress who persists in asking for more and more expenditures in education at the Federal level survive as a Member when the public decides that since the program does not apply to them, they are not going to support it or the people who support it?

What has really happened is that for so long we have had students go to the State institutions from a working-class family where two or more members of the family might be employed, return home and tell the family, "I am sorry, they told me that there is no room at the inn because we are too rich." That spreads throughout the community, and forevermore that is the reason that person did not succeed because his or her Government said, "I'm sorry, you just do not qualify for any assistance at all."

It would be our hope that by broadening the constituency, we would broaden the base of support in general for the program. It is my own conviction that our chance to sustain the initiative we have taken for low-income students in both elementary and secondary and in higher education is very gravely affected by how well we capture that part of the population that regards these programs as bypassing them and of no value to them.

It is very hard to convince an awful lot of Americans that they have an investment in education and the maintenance of our educational institutions if they do not in fact have a member of their family attending school. It is kind of surprising that they can understand the need for the fire department and Defense Department instinctively, but would not actually contemplate our educational processes once their family has been educated. We run into that all the time. That is the root of the unrest here in the Congress and the action of the Congress. While it is true that the Senate has passed tax credit bills over the years, the climate is entirely different now. I think Mr. Mottl gave an example of exactly what we are confronting.

Ms. Rice. I hope I did not imply, sir, that I do not have sympathy for the middle class and for programs to aid them. I was simply trying to put the panic, sweeping the country and the Congress, into perspective. There are in fact, as I have pointed out segments of the middle class facing real hardships, particularly those sending children to high-cost institutions and those with more than one child in college. The remedies should be appropriate for the very distinct needs that we can identify in the middle class.

Mr. Ford. Well, I think it is only fair to note that while this is called the Middle Income Student Assistance Act, the real dollars in fact are still being targeted in large part to the population already being served by the programs. It was made very clear to us in working with the administration that they would not consider a program that in any way threatened the present level of support, and that they in fact hoped that this would be a vehicle for enhancing the present program. We still have a persistent feeling, for example, that $1,600, the highest BEOG grant, should never go. The Senate committee did change the Pell bill to $1,800. That is a considerable change of where we were 2 weeks ago.

But anyway, if you look at all of the graphs, you determine a substantial part of the resources involved in this additional $1.2 billion—or greater in the case of the Pell bill—expenditure ends up right in the program for low income students with their benefits increased.

You point out one possible problem in having middle-income students crowd out the lower-income students at the bank. We talked about that, and frankly, I am not very much concerned about it at this point because I am not convinced that the lower-income students are getting loans at the banks to begin with. The evidence we have is that the guaranteed student loan program is not being utilized by people except at the very top limits of eligibility.

Ms. RICE. That program was originally designed for middle-income families as a method of providing "loans of convenience" to middle-income students. The need to borrow, among middle- and moderate-income students, as well as low-income students, particularly those at high-cost institutions—has not been met by the NSDL program, so many students for whom the guaranteed loan program was not originally intended have tried to borrow through the program and many succeeded. I would agree GSL has been and probably should continue to be a middle-income or upper-income program. Hence, we need other loan mechanisms for low- and moderate-income students.

The NDSL program is in danger. Each recent President—until this one—has tried to phase out that program, at least in his budget submissions. As we extend the guaranteed loan program to still higher income levels, there may well be a need to consider either improving and increasing the NDSL program—as the Commissioner suggested—or developing some other forms of loans of last resort that can aid low- and moderate-income students who may not be served by GSL.

Mr. FORD. Well, as you observed, the administration did not complain when Congress refused to go along with them on the direct student loan recommendation last year, and quietly and willingly put the money back into the budget for this year. But we still do not know much more than we did last year about what happens if you pull the plug on that program. We have attempted, during the past year, to get better information than we generally have with respect to that program. What we have discovered is that the distribution is so complex that there is a pattern——

Ms. RICE. I hope our office will be able to help you with that in a proposed study of the NDSL program.

Mr. FORD. Mr. Quie?

Mr. QUIE. Lois, I appreciate your testimony. You have been one, through the years, who has been able to look at higher education programs and bring concepts into balance to this committee. It has been helpful to the committee. I am glad, from your testimony, that you have not deviated at all from that.

You have also been one that does not get carried away by the expressions of middle income that we politicians, as you put it, have been reacting to, but constantly bear in mind that the low-income individuals are the main purpose for this legislation. As I have always said, bring them up to where the middle-income person is, and they can all start at the starting gate. You point out very effectively that we are giving some advantages here to the middle income in this legislation that is not made available to the lower-income group. For instance, as you point out, if the lower-income student is going to be controlled by the one-half cost, would it not be fair to put the $250 on top of that to get them in the same position as the others.

As the Senate has done, and as I propose we do, that you have a reduction according to ability to pay, and just use a different tax rate —this is proposed by the administration—and then not have any lump sum of money available for everyone. Would that not be a more fair way of handling that legislation?

Ms. RICE. It is clear from my testimony that I would prefer graduated grants, based on need to a flat grant for a wide population. I raised a caution, however, and one about which I feel quite strongly. It may be hazardous for the Congress to write into law a definite tax rate, whether it's Mr. Pell's 14 percent—which has now been revised to something like 10 percent—or your 14 percent; or the 20–30 that we now have in use, largely because all of the models and all of the estimates we have are just that—estimates. Admittedly, we have improved them enormously. But they are not hard facts. They don't reflect shifts in enrollment. They don't consider "induced" enrollments—an aim of the BEOG program. All of our models use participation rates for people who are already in college.

I am concerned about writing in a specific tax rate hoping that it will have certain budgetary implications and finding that we could go well beyond, or well below our expectations. You have a mechanism already where the contribution schedule, or schedule of payment, is presented annually to the Congress for review, and that is when you can determine whether the Commissioner is carrying out your intent.

So, I agree, the grants should be graduated but not certain that we can or should be specific in the law about a tax rate.

Mr. QUIE. I can see merit to what you say. In fact, when I first saw the 20 and 30 percent I wondered, "Where did that come from," I did not remember the 20 to 30 percent.

How do you feel about the independent students? Do you think to the extent we have been addressing them, that we ought to break down a little more and have a look at the independent student with dependents? What bothers me is that we are moving more and more to people declaring themselves independent, whether they may or may not be. They tend to be different than the people who in the traditional sense were truly independent, especially now, as people are going back to college after having a period of married life, for instance.

Ms. RICE. Well, I gather there has been a consistent problem with the independent student, and remedies are now suggested to take care of those students. I am also troubled that more and more students—at least in some parts of the country—appear to be declaring themselves "independent." The improvements or changes in the bill may induce more people to declare independence, but the level of the offset is not yet so high that we anticipate an enormous problem. We'll have to see.

While I was reading Margaret Gordon's testimony presented yesterday, at first I said, she is really quarreling with the Commissioner and not the Congress on independent students. Then I went back and reread H.R. 10854 and saw the changes in the bill. Like tax rates—I am concerned about writing into legislation such a specific treatment of contribution schedule for independent students. We need some latitude in this program to meet the demands of the budget, and the Commissioner needs some latitude. For example, if a number of people are suddenly declaring themselves independent, he should have the opportunity to shift the offset for independent students.

Mr. Ford. The difference is, if we do not write the change for the independent student in this legislation, and we do convince the administration what should be done, it will not happen for 2 years.

Ms. Rice. I can see your reason for doing it. I really have no great quarrel with that part of the legislation.

Mr. Ford. I am told that because of "Operation Commonsense" it takes so long to write something in simple terms that there is now a 2-year time lag. [Laughter.]

Mr. Quie. It is hard to find common sense, is it not?

Let me ask you, Lois, about the repayment of loans. Do you think we are moving to the place where we ought to address ourselves to some of the ideas that were proposed some time in the past, for people, say, who repay a percentage of income, something of that nature, for payment of loans?

Ms. Rice. There is a great deal of controversy, as you well know, about income-contingent loans and variations of them. Margaret Gordon of Carnegie made a very clear distinction between the old Zacharias Loan Bank and the Carnegie proposal for a National Student Loan Bank. Like the Zacharias program, the Carnegie proposal would have a longer period of repayment and higher loan limits. But some students would be paying far less than they borrowed, and some students a great deal more—a feature of the old Zacharias plan.

One of the problems we have with the guaranteed loan program at the moment is that many students, particularly some of the low- and moderate-income students who borrowed under that program, have not been able to gain employment or good wages. If they had a longer repayment period, we might get a better return on those loans.

The two loan programs, GSL and NDSL, need such considered thought and change that I hope they will be at the top of the legislative agenda next year. We have patched and put Band-Aids on them for an awfully long time. We need new mechanisms, perhaps a modified loan bank a la Carnegie, or, a la Quie—I know you introduced legislation in the past for a loan bank modeled too much in my view on the GSL program that now exists, with much the same repayment terms and much the same loan limits—all these ideas and more should go into the hopper.

The loan programs and their interrelationship, or lack of it, the populations they serve, the role of State agencies and private markets, and the role of the Federal institutions, are, I underline again, in need of very, very careful review.

Mr. Quie. I have some reservations, as you point out. The more I think of it, the bigger problem I think it is, that some individuals who have higher incomes would not only be repaying their loan but portions of other people's loans as well. I believe that we should permit individuals who really are giving themselves to society and therefore would not have very high earnings, not have to pay back the whole loan, since all of society benefits. That should come out of the general treasury, I have come to the conclusion, rather than to get somebody to pay that back just because they happen to go into a higher income.

But as we move into the possibility of the Senate proposal being adopted, which means that everybody gets a subsidized loan, I think the expansion will be so great out there, that we had better figure out a way of repayment. There are going to be billions of dollars.

Ms. Rice. This may seem strange coming from me, but I have long advocated including all families among those eligible for interest subsidies—at least since the ceiling for interest subsidies in GSL was increased to $25,000—an effective income of roughly $31,000. We were eliminating such a small portion of the population from eligibility for interest subsidies—about 10 or 15 percent—that we might as well include them. The danger of crowding out low-income students occurred in 1976. If you are going to $40,000, I tend to agree with Senator Javits, why leave out 1 or 2 percent of the population? Still, I recognize all the hazards mentioned earlier today.

Mr. Quie. Well, maybe it will help us address ourselves to the way we can repay, if we include all of them.

How about dealing with SSIG? Do you agree with what this bill proposes, to change it to 75?

Ms. Rice. You had a very good suggestion presented to the subcommittee last week by Haskell Rhett from New Jersey, which was to create a kind of two-tiered funding in that program, to provide incentives to States with sizable State scholarship programs to increase State appropriations for their programs. I was a little bit surprised to hear from the Commissioner this morning that the matching is down to about 27 cents on the dollar, rather than the 50–50 that we anticipated. Still careful consideration should be given to the proposal of Mr. Rhett. I see great economies in dollar-for-dollar matching, if it comes out that way.

The SSIG program and State scholarship programs generally have, as I pointed out, done a great deal for middle-class students. They also enhance, by design in most instances, the diversity of education by providing aid to students in high-cost institutions, thus supporting the private sector.

I am a fan of the SSIG program and a fan of State scholarship programs. I am concerned, however, that States sometimes target their programs on very much the same populations as the Federal programs, the programs do not complement each other—and Federal policy gets decided without any regard for what is going on in the States, and vice versa.

These concerns led our office with support from the Ford Foundation to undertake a 3-year study of the interaction of Federal and State student aid programs. I hope we'll have findings by the time the reauthorization legislation comes up next year, and we shall be able to suggest ways that State and Federal programs can be better integrated.

Mr. Quie. Do you think SSIG ought to be kept going?

Ms. Rice. Yes, I do. While it would be hard to mandate State scholarship programs and SSIG will play a more meaningful role as a means of aiding students when the funds are portable—able to move with students from one State to another. And I say this recognizing all the problems in trying to encourage States to change their policies.

Mr. Quie. You have observed public institutions and State legislatures. What do you think is going to happen to tuition in public institutions with this kind of expansion? Let me make the assumption that something very similar to this plus tax credits is going to be passed.

Ms. Rice. I do not really want to gaze into a crystal ball, but we thought that there might have been distinct and discernible increases in public tuitions as a result of BEOG's. We have seen very little evidence of that in our Federal-State study. Interestingly enough, we have seen more dramatic increases in tuition among some very low-cost private institutions that serve low-income students. In some areas, these institutions have tended much more than the public institutions, to try to raise their tuitions substantially, to avoid the half-cost limitations in BEOG's and to capture BEOG dollars for their low-income populations. I believe other concerns motivate States to raise or keep tuitions constant. Some States feel a real responsibility to their citizens to keep tuition low. Others, when they have financial disasters, such as in New York feel impelled to bring about amazing increases in price. Certainly that was true in New York State when it imposed tuition at CUNY.

Over time Federal largesse or increased Federal resources to families and students could prompt increases in tuition, but at the moment, we don't have evidence that they are responsible for changes in tuition levels.

Mr. FORD. When we look back to the late 1960's, we had a growing student population and a surplus of students for the first choice institutions, so they could be pretty choosy about whom they took. Now, in my State, they are actively going around to high schools recruiting. That is a phenomenon that I remember from before the war. But now, for the first time since World War II, we find our institutions actually going out to try to sell the kids their school. They had been sitting there with an unlimited supply coming to their doors before.

Is is not likely that the competition now is the biggest restraint on tuition increase?

Ms. RICE. Possibly, and "dips" in enrollment and recruitment of students are going to get worse before they get better, if we just look at the demographic information we have.

Mr. QUIE. My last question, Lois. There is $1.2 billion increase for student aid. What would be the best way to use that money?

Ms. RICE. Well, I would try to focus a lot of that amount on the middle class, at least those with real hardship but the question is how? I would certainly not put it into tax credits nor would I try to put money into both.

Mr. QUIE. Well, that lets out two of them, now.

[Laughter.]

Ms. RICE. Well, you have a third proposal. I would put a substantial amount of that billion, or more, I think, into the BEOG's program by raising still further the ceiling for the maximum grant. In that way you provide more assistance to the poorest of students while bringing in middle-income students. I'd have graduated grants, not a flat $250 grant. That is a piddling sum, whether under a tax credit arrangement where I have shown that it can even end up being less than $250 for a lot of people. Scattering a small amount of money over a broad population does not make a great deal of difference, particularly if one has a child in high-cost institution. I would rather see certain segments in the "real middle class"—which I tend to define as the "middle," or even the middle of those people who have children in college—$15,000—$20,000—get a more sizable grant, a $300, or $500, or $600, depending on the ability to pay. I'd like to see poor children get more too—again by raising the grant ceiling.

I would not change the basic ingredients of this package or the basic grants to noninstitutional costs—the access costs and other programs to instructional costs.

Mr. QUIE. What about the other programs? Do you agree that the college work study program is the place to put the increase, rather than the other two grant programs?

Ms. RICE. Over time I'd like to see the subcommittee look at the basic grants programs as the access program, and the supplementary education opportunity and the SSIG programs as real choice programs. If I were to draw an ideal plan, I think I would use basic grants as the foundation, as I think it was intended, put in a nice hefty self-help gap between the basic grant and an SEOG or an SSIG (consisting of loans and work) so that the SSIG and SEOG programs in particular would be focused on students in fairly expensive institutions. Still all the institutions will need some SEOG money to have flexibility in providing grants to supplement BEOG's—necessarily an inflexible program. These are people who get cut out of that program or somehow the computer cuts out.

So, all institutions, public and private, certainly need some grant moneys from the Federal Government to provide them the flexibility of making up a package for students.

But over time we should consider focusing SEOG money on institutions which are costly, and making, as I said earlier, that program the real choice part of the Federal package.

While I am very intrigued by the work study program, I left it out of my testimony because the members of this subcommittee have long known that I don't really consider it a student aid program. It is a work opportunity program. Many students work to help support themselves in college—in fact, most do. I would like to see more students work, not just poor and needy students. I also am concerned as to whether colleges will be able to utilize all the new moneys, but I am assured by others and the Office of Education that colleges can use it.

I think it is sound to encourage students from upper-income families (for example, the children of your colleague, who testified earlier this morning) to work and borrow. I do not want to see work and loans only concentrated on the poor. If we believe in the work ethic then it is good for everybody.

I am glad that you propose extending the program. I am not sure that it needs to be heavily needs tested as time passes on and more moneys become available.

Mr. QUIE. Thank you very much.

Mr. FORD. Thank you very much. The committee will adjourn now. This is the conclusion of the hearings on H.R. 10854, and we are scheduled to meet on Tuesday to mark up the bill, which I assume will be a public debacle and you may want to join us.

[Whereupon, at 1:10 p.m. the subcommittee adjourned, to reconvene subject to the call of the Chair.]

[Additional material submitted for inclusion in the record follows:]

USL
UNITED STATES LEAGUE of SAVINGS ASSOCIATIONS WASHINGTON OFFICE
1709 NEW YORK AVENUE, N.W. / WASHINGTON, D.C. 20006 / TEL. (202) 785-9150

March 14, 1978

Honorable Carl Perkins
Chairman
House Committee on Education and Labor
2181 Rayburn House Office Building
Washington, D.C. 20515

Attention: Ms. Pat Rissler

Dear Chairman Perkins:

The U.S. League of Savings Associations, * appreciates this opportunity to comment on H.R. 10854, the Middle Income Student Assistance Act of 1978. Our statement is directed primarily to Section 3 which amends Title IV of the Higher Education Act of 1965, to provide changes in the Guaranteed Student Loan Program. By way or background, the U.S. League has been involved in the development and implementation of the GSLP since its creation in 1965 and savings and loan associations throughout the country provide these loans.

The U.S. League supports H.R. 10854 in general and Section 3 in particular. We believe that with the steadily escalating costs of higher education, the increase provided for the family income limit (from present $25,000 to $40,000) is most timely. Although families with incomes in the $25,000 - $40,000 range are often times in need of educational loans to help defray college or vocational cost burdens, lenders have been hesitant to provide loans to this group on a large scale.

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* The United States League of Savings Associations (formerly the United States Savings and Loan League) has a membership of 4,4000 savings and loan associations, representing over 98% of the assets of the savings and loan business. League membership includes all types of associations--Federal and state-chartered, insured and uninsured, stock and mutual. The principal officers are: Stuart Davis, President, Beverly Hills, California; Lloyd Bowles, Legislative Chairman, Dallas, Texas; Norman Strunk, Executive Vice-President, Chicago, Illinois; Arthur Edgeworth, Director-Washington Operations; and Glen Troop, Legislative Director. League headquarters are at 111 E. Wacker Drive, Chicago, Illinois 60601; and the Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006; Telephone (202) 785-1950

We therefore believe that the easing of the income limitation will afford educational aid to a segment of the American public which has not previously received it.

H. R. 10854 contains provisions which could be of substantial benefit to the lenders as well as the borrower. For example, this bill would, for the first time, provide a floor of 1% for the special allowance. In addition, H. R. 10854 would permit lenders to receive an increase in the special allowance of up to .5% during the repayment period. This increase will help to cover collection servicing costs for the lender. Finally, Section 3 paragraph (D) of H. R. 10854 would define the term "period of repayment". Although we support the thrust of this language, we agree with the American Bankers Association (whose representatives appeared before the Subcommittee on Postsecondary Education February 23) that this provision should be amended so that the lower special allowance will apply only when the loan payments are deferrred and not merely when they are "eligible for deferral" as stated in Section 3 (D), line 19.

In closing, the U.S. League welcomes the efforts of the Administration and the Congress to improve the Guaranteed Student Loan Program. We are hopeful that this legislation may serve as an incentive to both borrowers and lenders to participate in the program.

We respectfully request that these comments and suggestions be made part of the official record on H. R. 10854.

Sincerely,

Arthur Edgeworth

Arthur Edgeworth
Director, Washington Operations

Mary Mitchell Dunn

Mary Mitchell Dunn
Research Assistant to Director

JIM WEAVER
4th District, Oregon

Committees:
AGRICULTURE
INTERIOR AND INSULAR AFFAIRS

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Washington, D.C. 20515

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February 23, 1978

The Honorable William D. Ford
Chairman, Subcommittee on Postsecondary
Education
619 House Annex #1
Washington, D.C. 20515

Dear Mr. Chairman:

Please include the following remarks and enclosures in the printed hearing record on H.R. 10854, The Middle Income Student Assistance Act.

I heartily endorse President Carter's plan for helping middle income students pay for their college education. The high cost of this education places a severe burden on most families with children in college, especially those in the middle income brackets who are often unable to qualify for financial assistance. The President's plan, introduced as H.R. 10854, is one of the most important pieces of legislation it has been my pleasure to co-sponsor. It provides real financial relief to those in need, without creating another tax break for upper income earners. I oppose the Tuition Tax Credit for this reason; it would give the same amount of help to a person whose income is $100,000 as it would to the person who earns $20,000. The President's plan however, makes grants and loans available to all those in need of some assistance, and does so in a more equitable way.

Enclosed please find the statements of student groups and academic institutions in my district in support of the President's proposal.

Sincerely,

Jim Weaver

JIM WEAVER
Member of Congress

JW/fad
Enclosures

WEAVER
[illegible] DIST., OREGON

COMMITTEES:
AGRICULTURE
AND INSULAR AFFAIRS

Congress of the United States
House of Representatives
Washington, D.C. 20515

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February 23, 1978

"The University of Oregon agrees that additional assistance is needed for students from middle income families. We feel that President Carter's proposal is a most equitable and efficient approach to solving this problem. We strongly support the proposed increases in student financial aid to meet the needs of these students in addition to the students who have traditionally been assisted by these programs."

Ray Hawk
Vice Prseident for Administration
and Finance
University of Oregon
Eugene, Oregon 97403

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February 23, 1978

Statement by the Oregon Student Lobby on H.R. 10854,
The Middle Income Student Assistance Act, to the
House Subcommittee on Postsecondary Education

The Oregon Student Lobby supports President Carter's plan to extend student financial aid to middle income background college students. Congressman Weaver is to be commended for co-sponsoring H.R. 10854 which will assist middle income Americans in meeting the rising costs of higher education.

The O.S.L. supports the following:

* Basic Education Opportunity Grants -- $2.877 billion total, to increase the maximum award to $1,800, and raise the family income eligibility ceiling to $25,000. At least 2 million more middle income dependent students will be served.

* Guaranteed Student Loans -- $927.3 million, to raise the family income eligibility ceiling for interest subsidies to $40,000 gross adjusted family income. The Lobby endorses the 1 per cent floor on the special allowance and the ½ per cent allowance to lenders for loans in repayment. These provisions will encourage lender participation. The Oregon Student Lobby recognizes the need for institutions to be reimbursed for the administrative costs associated with this proposed expansion of the G.S.L. and B.E.O.G. programs.

* Work Study -- $615 million, to create jobs for 383,000 students from families with incomes above $16,000.

Extending existing programs is the best means of providing assistance to middle income background students. Tax credits are less efficient, less equitable, and more expensive.

SOUTHERN OREGON STATE COLLEGE
Office of Financial Aids / 482-6161

February 23, 1978

Congressman James Weaver
1723 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Weaver:

Southern Oregon State College strongly supports the "Middle Income Student Assistance Act of 1978" (H.R. 10854) as the most viable way of addressing the plight of middle-income families. We feel this delivery system would be far superior to the tuition tax credit proposals which would be inequitable and ineffective. We estimate that an additional 500 middle-income students would receive grant assistance through the expanded Basic Grant Program at Southern Oregon State College and that changes in the Guaranteed Student Loan provisions would enfranchise 150 additional students.

We encourage your strong support of this legislation and ask that you articulate our feeling at the impending hearings on the bill.

Sincerely,

James K. Sours

James K. Sours lc
President

JKS:lc

February 23, 1978

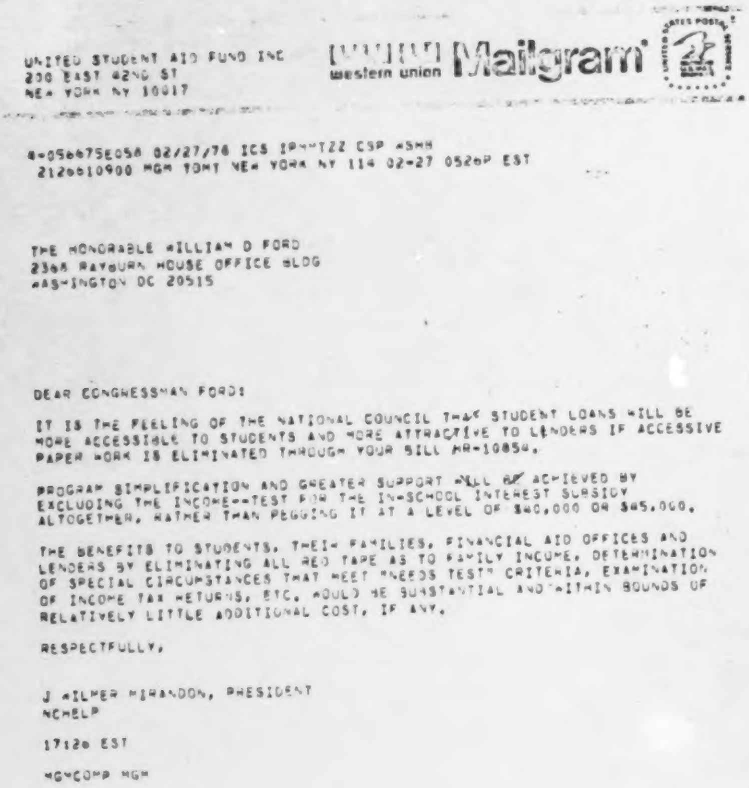
STATEMENT OF SUPPORT - PRESIDENT CARTER'S PLAN TO BOOST STUDENT AID
BY GARY L. FELDMAN, ASUO PRESIDENT.

CONTACT - Gary L. Feldman
ASUO President
Suite 4, EMU II
University of Oregon
Eugene, Oregon 97403
(503) 686-3724

On behalf of the Associated Students - University of Oregon, I welcome President Carter's proposal to help middle income families and their students by increasing the amounts of money available for financial aid at our universities and colleges. This bold initiative to help those who's needs have often not been adequately met and who bear the largest financial burden of supporting our government's operation, provides a significant improvement over the previously touted tax-credit concept.

We at the University of Oregon are particularly pleased to see the President increase help to students who work their way through school through the college work/study program. In addition, increasing the number of families who's sons and daughters are eligible for loans and grants will be beneficial to not only those families, but to our country's efforts to remain strong through education. Further, we are very pleased to see additional money available to raise the amounts of the grants available to students and to help students secure loans.

Finally, we applaud Congressman Weaver and others who are helping the President provide this needed assistance for students throughout our county. We call on all Congresspersons to aid in this important effort.



UNITED STUDENT AID FUND INC
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NEW YORK NY 10017

western union Mailgram

4-056675E058 02/27/76 ICS IPMMTZZ CSP WSHB
2126610900 MGM TDMT NEW YORK NY 114 02-27 0526P EST

THE HONORABLE WILLIAM D FORD
2368 RAYBURN HOUSE OFFICE BLDG
WASHINGTON DC 20515

DEAR CONGRESSMAN FORD:

IT IS THE FEELING OF THE NATIONAL COUNCIL THAT STUDENT LOANS WILL BE MORE ACCESSIBLE TO STUDENTS AND MORE ATTRACTIVE TO LENDERS IF ACCESSIVE PAPER WORK IS ELIMINATED THROUGH YOUR BILL HR-10854.

PROGRAM SIMPLIFICATION AND GREATER SUPPORT WILL BE ACHIEVED BY EXCLUDING THE INCOME--TEST FOR THE IN-SCHOOL INTEREST SUBSIDY ALTOGETHER, RATHER THAN PEGGING IT AT A LEVEL OF $40,000 OR $45,000.

THE BENEFITS TO STUDENTS, THEIR FAMILIES, FINANCIAL AID OFFICES AND LENDERS BY ELIMINATING ALL RED TAPE AS TO FAMILY INCOME, DETERMINATION OF SPECIAL CIRCUMSTANCES THAT MEET "NEEDS TEST" CRITERIA, EXAMINATION OF INCOME TAX RETURNS, ETC. WOULD BE SUBSTANTIAL AND WITHIN BOUNDS OF RELATIVELY LITTLE ADDITIONAL COST, IF ANY.

RESPECTFULLY,

J WILMER MIRANDON, PRESIDENT
NCHELP

1720 EST

MGMCOMP MGM

national council of higher education loan programs NCHELP

March 1, 1978

The Honorable William D. Ford
Chairman, Subcommittee on Postsecondary
  Education
619 House Office Building Annex
Washington, D. C. 20515

Dear Chairman Ford:

We are pleased that you have introduced HR 10854 affording relief to middle-income student loan borrowers by raising the interest subsidy level from the present $25,000 of adjusted family income to at least $40,000. As president of both the National Council of Higher Education Loan Programs and United Student Aid Funds, the only nationwide, private, not-for-profit student loan guaranty agency, I would like to heartily applaud this move and wish you every success in getting the bill passed by both Houses of Congress. However, we have one modification to suggest.

Despite the need, student loans are not always available to middle-income children who are ineligible for interest subsidies. Many lenders are unwilling to be burdened with the paper work involved unless the Federal Government will pay the in-school interest. They simply will not go to the trouble of billing the student while in school for the loan interest as it falls due. Neither are they permitted to allow the interest to compound itself up until repayment of the loan commences. As you know, student loans are, at best, a break-even proposition for lenders and many regard them as community service, loss-leaders. In consequence, the payment of the in-school interest by the Federal Government is perceived by lenders as an attractive feature and a partial offset to the several disadvantages. Without it, the middle-income student, who has already been shut out from scholarships, grants, etc., could be shut out of the student loan market as well.

Accordingly, we believe your proposal to raise the income level for the in-school Federal interest subsidy will be most beneficial to middle-income students. However, we also believe your bill raises the possibility of improving the entire student loan climate by eliminating the family income test for interest subsidies altogether. Our best estimate is that if the government were paying in school interest where the family income is $40,000 or less, 95% to 98% of all student loans would be

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Treasurer
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Past President
ROBERT P. ZEIGLER
Ohio Student Loan Commission
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interest-subsidized. What a boon it would be to everyone involved -- the students, their families, school financial aid officers, lenders, guaranty agencies -- if you were to make it 100%. By one stroke of the legislative pen all the red-tape as to family income, determination of family circumstances that may warrant special treatment if "needs test" criteria can be met, examination of income tax returns, etc., could be wiped out so far as determining eligibility for interest subsidy is concerned. The elimination of this extra paper work represents a real inducement to the lender.

In case it is feared that extension of the interest subsidy to all borrowers may open the flood-gates and encourage every student to borrow whether he needs it or not, it should be pointed out that no student may ever borrow more than the excess of the cost of education over the amount of aid available. This would continue to be true.

At first blush, it may seem improper to contemplate a Federal interest subsidy to the children of wealthy people. We believe further thought will alleviate that fear. The benefits to be derived by all students, financial aid officers, lenders and guarantors are so great that we must not allow the tail to wag the dog! If our 95% to 98% estimate is correct (and it can't be far off) it means that we would be asking all concerned parties to undertake a very burdensome procedure in every case just to isolate the few students who do not qualify. The game isn't worth the candle. How much more sensible it would be to eliminate the interest subsidy test entirely. The extra cost to the Federal Government would be but a very small fraction of the savings that would ensue to all the other participants.

If the subsidy level were raised to $40,000 or $45,000 and less than all of the loans became subsidized, it is highly likely that more lenders than ever would confine their lending only to subsidized borrowers. They would deem it uneconomic to run two sets of loan accounts when one set would be for less than 5% of the business. The chances are that a great many additional lenders would join the ranks of those already refusing to make non-subsidized loans. So the student from the middle-income family might find it more difficult to get a student loan. And yet many such families are far from wealthy. In our experience, the salaried father earning $50,000 to $60,000 a year, with the typical suburban home, two cars (not a luxury any more but a necessity), more than one child in college, heavy real estate and income taxes and a hundred and one other demands on his purse, is hardly any better able to fully finance his childrens' higher education than a much lower-salaried man whose children may be able to get scholarship aid, grants, etc. It would be highly undesirable to foreclose the student loan market to children simply because their parents' incomes are above some arbitrary limitation.

Again, as far as the very wealthy are concerned, it must be remembered that there are built-in limits to the amounts that can be borrowed under the Federal program. They are $2,500 per year for undergraduate students to a maximum of $7,500, and $5,000 per year for graduate students to an overall maximum of $15,000 (including undergraduate loans). Compared to the amount of income taxes paid by the rich, the value of an interest subsidy for a limited period for such relatively small amounts seems trifling. Accordingly, we have no way of knowing how many wealthy families would even bother to take advantage of it.

To sum up, Mr. Ford, we appeal to you to amend your proposed bill to extend the benefits of the Federal interest subsidy to all student loan borrowers regardless of family income. By doing so, you would give another great assist to the student loan program as you have done in the past. If I can be of help to you and your staff, please do not hesitate to call on me.

Sincerely,

J. Wilmer Mirandon
ds

JWM:ds

J. Wilmer Mirandon
President - NCHELP

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EXECUTIVE OFFICERS ASSOCIATION

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SHEEO

1977-78 President Elect
WILLIAM ARCENEAUX
Commissioner of Higher Education
State Board of Regents
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February 17, 1978

The Honorable William D. Ford
2368 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Ford:

As President of the State Higher Education Executive Officers, an organization of the chancellors and commissioners of higher education of the 50 states, I want to express our views on the most effective and equitable means of providing additional and necessary financial assistance to needy middle income families. Since one of our major responsibilities in our respective states has been the coordination and planning of student aid programs, we have had ample opportunity to assess the merits of all the proposals your Subcommittee is now considering.

Traditionally, Congress has recognized that the most efficient and economical method of addressing this and other problems of student aid was in the form of a direct partnership between the federal and state government. In recognition of the benefits of such an approach, Congress incorporated the State Student Incentive Grant program into the 1972 Higher Education Amendments.

When Secretary Califano testified before the Joint Hearing on February 9, he noted the extent to which the institutions are underwriting student assistance programs in the form of matching funds. At the current time the states are providing more in student aid than is required by the federal government. (New Jersey, for example, is spending $40 million for this purpose. New York's expenditure is $250,000,000). I should point out that the institutional matching portion of the federal campus-based student aid in public colleges and universities is usually drawn from state funds. I want to stress that these funds are in excess of the monies the states already use to administer Guaranteed Student Loan agencies and State Student Incentive Grant funds directly.

Bearing this in mind, we note that none of the proposals now before you recognize the extent to which middle income families can profit from an increase in funding for the SSIG program. Recent surveys of current student aid expenditures by the states show that between forty and fifty percent of state matching funds go to families with incomes in excess of $12,000. We estimate that a $50 million increase in federal SSIG outlays, over the recommended $77 million, would generate substantial additional state matching funds that could be specifically targeted to reach families in this category.

Secretary: Nancy M. Berve, Associate Director, [illegible] Education Department, Education Commission of the States, Suite [illegible], 1860 Lincoln Street, Denver, Colorado [illegible]
Treasurer: Lloyd Nygaard, Assistant Commissioner and Executive Secretary, Board of Higher Education, State Capitol [illegible], Bismarck, North Dakota [illegible]

Let me say in closing that we fully support the Administration's efforts to extend the eligibility requirements for student aid. The additional $1.2 billion increase the Administration recommends will certainly go a long way toward ameliorating a critical social ill. We recommend that the $50 million increase we propose in the SSIG program be earmarked from the overall $1.2 billion figure and taken from other outlays.

The above recommendations are highly preferable to the tax credit arrangement. They not only meet the objectives of this other plan, but do so in a less costly manner and within a framework that provides relief to the middle income families who most need it. A major increase in the SSIG allocation will provide such families with twice the amount of relief than the federal government, acting by itself, can offer in any of the alternative proposals.

Thank you very much.

Sincerely,

T. Edward Hollander

T. Edward Hollander
President

Enclosure

October 1, 1977

STATE HIGHER EDUCATION EXECUTIVE OFFICERS*

Statewide boards with governing or coordinating responsibilities for public institutions of higher education, including states with a single public institution of higher education.

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2 = Governing Board
3 - Nonstatutory 1202 Commission

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*As of October 1, 1977, all fifty states, the District of Columbia, Puerto Rico and Alberta, Manitoba, Maritime, Ontario and Quebec Canadian Provinces are members of SHEEO.

**Resigns effective November 1, 1977.

+Indicates states where SHEEO membership changed on October 1, 1977 in accordance with the Constitution and Bylaws as amended.

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**In accordance with Constitution and Bylaws as amended, South Dakota has chosen the option of joint membership.

***Membership in accordance with Constitution and Bylaws as amended to be resolved during 1977-78.

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BANK OF AMERICA

CALIFORNIA DIVISION SERVICE CENTERS

WILLIAM J. BREEN
Vice President

February 27, 1978

The Honorable William D. Ford
The United States House of
Representatives
Room 2368
Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Ford:

Bank of America, N.T. & S.A. is pleased to support the amendments to the Federally Insured Student Loan sections of the Higher Education Act of 1965 contained in Section 3 of H.R. 10854 which you introduced.

The amendments you have proposed in H.R. 10854 will provide great assistance in resolving difficulties financial institutions have experienced in providing educational assistance through the Federally Insured Student Loan Program. Regulations to implement the Education Amendments of 1976 (Pub.L. 94-482), which will be issued soon, are expected to be fair and practicable and hopefully will not erode the benefits of your proposed legislation.

We have only a small technical amendment to suggest to Section 3. On page 5, line 19 of H.R. 10854, the word "deferred" should be substituted for the phrase "eligible for deferral." In explanation of that amendment, the intent of Section 3 of H.R. 10854 is to grant an increased special allowance to lenders of up to .5% per annum during times of loan repayment, when lenders incur greater processing costs in administering their Federally Insured Student Loans. The present lower special allowance is retained during periods, such as the borrower's service in the armed forces or attendance at school, when loan payments of principal are deferred and the government usually pays the interest on the loan. However, even though in such circumstances a borrower's loan payments are "eligible for deferral," a borrower, for reasons of his own, may elect not to use the deferral period and continue to make loan payments. In such cases the lender's processing costs remain the same and the increased special allowance should be paid. The current lower special allowance should only apply when loan payments are actually deferred.

Again, we thank you for your interest in the Federally Insured Student Loan Program and your sponsorship of H.R. 10854.

Sincerely,

W. J. Breen

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION • BANK OF AMERICA CENTER • BOX 37000 • SAN FRANCISCO, CALIFORNIA 94137

APPENDIX

FOR IMMEDIATE RELEASE **FEBRUARY 8, 1978**

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
ON
ADMINISTRATION'S PROPOSAL FOR
AID TO FINANCING HIGHER EDUCATION

The Briefing Room

10:05 A.M. EST

Good morning, everybody.

This morning I and the Secretary of HEW, Joe Califano, and several of the key leaders of Congress have a very important announcement to make. Today the cost of sending a son or daughter to college is an increasingly serious burden on America's low- and middle-income families.

From 1967 to 1976, in just a ten-year period, the cost of college education increased 77 percent. This year the average bill for tuition, room and board in a private college is more than $4,800 and in a typical public university a student would have to pay $2,500 per year for education-related costs.

Increasingly, middle-income families, not just the lower-income families, are being stretched to their financial limits by these new and growing costs of a university or college education. No one should be denied the opportunity for a college education for financial reasons alone. And our Nation has long recognized our obligation to help lower-income families in this educational area.

Now we must increasingly take steps to help middle-income families as well. This is why I am proposing and announcing today a $1.46 billion increase in the assistance that the Federal Government provides to help with these growing costs, bringing our total student assistance budget to $5.2 billion for fiscal year 1979. We are proposing additional scholarship grants, more part-time jobs for students, and more loans primarily focused on students from moderate and middle-income families.

About $900 million will provide tuition grants to students from families with incomes of up to $25,000. $70 million will provide expanded eligibility for guaranteed loans for families in the $16,000 to $45,000 income range and $150 million to provide part-time jobs to college students.

We estimate that more than 5 million college students nationwide will receive financial assistance from the Federal Government in fiscal year 1979, an increase of at least 2 million students over the current year.

The coordinated program that I am proposing, using grants, work study and loans, will provide more real help than any tax credit and is a more equitable and efficient way to help middle-income families with tuition and other college costs.

Tuition tax credits will provide benefits to those who do not need them and almost certainly would cost more than the carefully targeted measures that we are proposing today.

Congress must choose between tuition tax credits and the far more beneficial increases in Federal student assistance programs that I am requesting.

This Nation cannot afford, and I will not accept both.

Secretary Califano and I have worked very closely with Congressional leaders in developing this program.

Senators Williams, Pell and Representatives Perkins, Biaggi, Ford, Brademas and Thompson have cooperated fully with us along with many others. They support this program and will help to move it rapidly through the Congress.

Now, Secretary Califano and the Members of Congress will explain in more detail this program and will be glad to answer your questions.

END (AT 10:07 A.M.)

insert App. 2

FOR IMMEDIATE RELEASE FEBRUARY 8, 1978

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

BRIEFING BY JOSEPH A. CALIFANO,
SECRETARY, DEPARTMENT OF HEALTH,
EDUCATION AND WELFARE

BRIEFING ROOM

10:10 A.M. EST

SECRETARY CALIFANO: I will very quickly run through the program and then let the Congressmen comment before taking any questions, if you will. I will be happy to take questions.

There are three major elements of the President's program; roughly $1 billion is in BEOGs or Pell grants, as we call them since Senator Pell initially introduced the legislation that started that program. That is an increase over the $2.16 billion in fiscal 1978. The total amount in the fiscal 1979 budget is $3.2 billion for BEOG grants.

The second element is the Work Study Program, which is up $165 million in fiscal '79, over $435 million in fiscal 1978, for a total of $600 million.

The third element is the Guaranteed Student Loan Program which is up $297 million, over $530 million in fiscal '78, for a fiscal 1979 total of $827 million.

This program will increase the awards made from 3.2 million awards in fiscal 1978 to seven million awards in fiscal 1979. Those awards will benefit about five million college students since students sometimes don't qualify for more than one program.

The minimum grant, the grant that goes to those -- the maximum grant, the grant that goes to those with the lowest incomes in the Pell Grant Program will go from $1,600 to $1,800; up to families with incomes of $8,650.

For families from there to about $16,000, there will be a 25 percent increase in the amount of money they get on the average, roughly from $850 to $1,050, and for families from $16,000 to $25,000 incomes, they will receive a $250 grant.

That will go to roughly 2.2 million students in that last category.

In work study, the President's program will cover one million students, 380,000 of which will come from families with incomes over $16,000.

The Guaranteed Student Loan Program will be a program now available to families with adjusted gross incomes, in the tax sense, of up to $45,000. The present level is $30,000, and they will receive an interest subsidy of about $250 per year under that program. But what is most important is that they will receive the cash they need in the over-$16,000 range to ease liquidity problems they have through the loans.

There will be 560,000 families, we estimate, affected by that program.

I would like to second what the President said. This program really is an example of the Administration and the Congress working together, that I think is very special. I would like to give Congressman Ford and then others a chance to make some comments.

CONGRESSMAN FORD: Thank you very much. As the Chairman of the Post-Secondary Committee in the House, we expect that we will be moving quickly to cooperate with Senator Pell, who was the first to move and especially since the bulk of this program is going to be an increase in the Pell grants, to introduce the legislation and move quickly.

We are very much excited about the fact that President Carter and Secretary Califano initiated this action and started negotiating with the Congress and with the education community months ago to bring us toward today. And it should be noted, I think, that this will be the biggest single infusion of funding for middle-income college students in this country since the adoption of the GI Bill at the end of World War II.

It marks a very dramatic shift in using Federal resources to assist students that have increasingly felt left out of assistance from State and Federal Government in seeking a college education.

I am confident that it will pass through the House of Representatives very quickly and it will be very widely supported on a bipartisan basis.

Thank you, Mr. Secretary.

SECRETARY CALIFANO: Senator Pell is the Chairman of the comparable committee on the Senate side.

SENATOR PELL: Thank you, Mr. Secretary. I congratulate you and the Administration on recognizing the problems of middle-income America who pay the bills, do the work, pay the taxes--and are suffering a great deal -- at this time; and the approach that we always sought, some way of alleviating the strain and really almost the agony of a middle-income family of having one or two or three children attending a college or university.

There are still some wrinkles to be worked out as to how the exact formula will be decided on in the grants. But the amount is absolutely superb and the basic allocations between Guaranteed Student Loans and Work Study and the Basic Grants, I think are correct, and within those frameworks, there will probably be a little give and take as we move along.

So congratulations to the Administration on this program.

SECRETARY CALIFANO: Senator Williams?

SENATOR WILLIAMS: Thank you, Mr. Secretary. You know the need that we are addressing ourselves to has been fully appreciated by Congress for a long time. We have been grappling with methods and means to meet this need.

Now something new has been added. We are in full governmental partnership here, the Executive and both Houses of Congress, and with this unity of purpose and commitment, I think we can confidently predict that we will have a program ready for both Houses of Congress expeditiously arrived at. And we can see a new law as relief to the hard-pressed middle-income familes with young people in college.

Our commitment can be demonstrated very early. Tomorrow, we will go into extraordinary session. The Senate and House committees will have a joint hearing. This promises to be the beginning of expeditious action.

Now we are in a one-to-one relationship, Human Resources, Education and Labor, Senate and House, and when we are in that relationship, we get things done. When other committees share responsibilities, sometimes we get -- forgive the expression -- bogged down. (Laughter)

We are working with Carl Perkins and his good Members, Senator Pell, and I know that we can do our part of the job and do it with dispatch.

Thank you.

SECRETARY CALIFANO: Congressman Brademas.

CONGRESSMAN BRADEMAS: Mr. Secretary, beyond congratulating President Carter and you, sir, and Congressman Ford and Senator Pell in the cooperation that is made possible this day and beyond reinforcing the great and advantageous impact this new program will have on middle-income families, I think there is one other factor I would like to mention. That is that this program will help strengthen the pattern of diversity of American post-secondary education. I represent a district in South Bend, Indiana, that exemplifies that point.

We have Notre Dame, St. Mary's and Goshen College and Indiana University and Purdue and Bethel College, the whole spectrum of public and private kinds of institutions which most of us think, I believe I am confident in saying, are essential to maintaining a strong higher education community in the United States.

This new program will help make possible a continuation and a strengthening of the pluralistic phases of American higher education. That is another reason I am so enthusiastic about it.

SECRETARY CALIFANO: Congressman Thompson.

CONGRESSMAN THOMPSON: There is little to add except to express my gratitude now to my colleagues for the tremendous amount of cooperation and work which has gone into this over a period of months. We have gotten along really splendidly. We have arrived at a formula which has been rather desperately needed, an alternative to a number of other suggestions which wouldn't be nearly so effective as will this.

I look forward to expeditious action and complete cooperation between these two committees.

SECRETARY CALIFANO: Congressman Biaggi.

CONGRESSMAN BIAGGI: Thank you very much, Mr. Secretary. The preceding speakers have said it all. But as an advocate of the tuition credit, I am satisfied that this program is superior; will target in on the most needy; broadens the approach; responds to the needs of the middle-income and provides additional funds.

I am just privileged to have been part and parcel of the entire picture. I congratulate the Administration.

SECRETARY CALIFANO: We saved the best for the last. I have to take this opportunity, in introducing Chairman Perkins, to note that I have had the privilege of working with him for a long, long time, since the Johnson years, and also to note, if you will forgive me, Carl, that in addition to working on education and labor matters, I am constantly asked, why didn't you move against tobacco subsidy when you went into the anti-smoking campaign and it was Chairman Perkins who said to me, "Why don't you look at the question of whether or not anybody smokes or doesn't smoke because the Government pays a subsidy?" And when I looked at that question it is abundantly clear that it is irrelevant to the decision to smoke or not to smoke.

I talked to him about a lot of things, and I am very happy to be here with him.

SENATOR PERKINS: Thank you, Mr. Secretary.

First, let me compliment President Carter for appointing such an outstanding American as Joe Califano as Secretary of HEW.

I think he is one of our greatest men in government today. Everything I feel that has been pertinent to the question has already been stated.

The Pell grants -- we did not come by those grants easily. We ran the committee all night long, the Committee on Education and Labor, along with Senator Williams and Senator Pell. We are not about to let that program go down the drain anywhere along the line.

And the President and Secretary Califano, with this extra money, have certainly, in my judgment, headed that situation off. At the same time, this tuition grant question is not a new question. When we enacted the Elementary and Secondary Education Act back in 1965, we were confronted with some of the private institutions throughout the country, that we couldn't add tuition credit at that time. I recall it distinctly. But here again the Secretary of HEW and the President responded and concentrated on the disadvantaged youth in elementary and secondary schools in America.

This program today announced concentrates on those most in need throughout America and gives all the middle-income people a great and tremendous break.

I feel confident, Mr. Secretary, that we will not have any problems in connection with the enactment of the program, and let me compliment, before I sit down, Congressmen Brademas and Thompson, who for many years have worked on the student assistance programs, perhaps harder than anyone else in committee on our side of the aisle.

Bill Ford, who has taken the lead, has come out strong for his strong student assistance programs, which is well demonstrated here today.

But on the other side of the aisle, I would be derelict in responsibility if I failed to state that the Pell grants would not have come into existence back in 1972 but for that great Senator from Rhode Island, Senator Pell, and the cooperation, the close cooperation he had from the distinguished Senator from New Jersey, Senator Williams. With that cooperation today -- there may be a few variations, Mr. Secretary -- this program will move expeditiously and it will be the program that will serve millions of students in the future, those mostly in need and the middle-income students, just like it has served in the past.

This is going to be a considerable improvement; and you are the one to be congratulated. I thank you very much.

SECRETARY CALIFANO: Thank you. I don't know if you have any questions about the program.

Yes?

Q I work for the Chronicle of Higher Education. The President indicated that costs of college had risen about 77 percent. In that same period, the medium family income has gone up almost 89 percent. My question is, in light of that, why the emphasis on middle income?

SECRETARY CALIFANO: Because there are -- and those numbers help answer the question as to why a tax credit doesn't make sense. This program is focused on middle income with a variety of proposals to provide for a variety of needs, some that have a problem which is basically a liquidity problem; they don't have the cash at that time.

Lots of other expenses have gone up. Some of you may realize that hospital and health costs have gone up far more rapidly than education costs. We feel that this kind of three-cornered program with the other student assistance programs makes much more sense in responding to the variety of needs that middle-income families have than just giving everybody a $250 tax credit.

Q If the tax credits are considered inequitable then how could it be considered equitable to have the flat $250 grant between $16,000 and $25,000 when you are dealing with an income that is 50 percent more than the lower income?

SECRETARY CALIFANO: The most inequitable part of the tax credit program is the portion of the tax credit program that provides under the Roth proposal, I guess, a quarter of a billion dollars to people above the 90th percentile in income in this country and under the Packwood-Moynihan proposal more than a half billion dollars to people above the 90th income percentile. That is avoided in this program.

Secondly, our feeling was that we should concentrate our focus first up to $16,000 and make sure that those people receive substantial increases because they are the most oppressed people and then secondly, the group from $16,000 to $25,000 we decided to take care of with a minimum grant of $250 and also increase other programs for their children, the work study program is increased and also to increase their opportunities to get loans.

Q But how do you justify the same grant for someone at $25,000 as someone for $16,000?

SECRETARY CALIFANO: I think we have made a judgment that in that range that grant coupled with the other programs--you cannot look at this program alone. There are some people in that range for whom that grant will provide some help. But there are many people in that range who will need additional help beyond the grant.

That help is available either in work study programs which have also been increased, or in the guarantee student loan programs.

Q Mr. Secretary, $25,000 gross or adjusted gross?

SECRETARY CALIFANO: It is adjusted gross income.

Q How high could that conceivably go, then?

SECRETARY CALIFANO: For the grant, it is $25,000 flat, Congressman Ford indicates.

Q $25,000 flat?

SECRETARY CALIFANO: $25,000 flat. On the $30,000 to $45,000 for the loans, it is adjusted gross income.

Q The private university presidents are saying that they are left out in this despite what was said about private colleges being taken care of in this --

SECRETARY CALIFANO: What private universities? Not the private university presidents that we have talked to.

Q The head of the National Association of Independent Colleges and Universities, because there is no SOEGs in this thing.

CONGRESSMAN FORD: It is SEOG. As a matter of fact, we talked--the presidents were in here this week and reviewed the philosophical basis for every one of the components of this program and they were ecstatic about it.

I don't use that word as an exaggeration. The private schools with regard to tax credit -- this comes as a surprise to people who haven't examined the phenomenon--is an unmitigated disaster because $250 a family is not going to help people who are sending members of their family to colleges that may range up to $7,000 or $8,000 a year in tuition costs alone.

Where it is possible with this package to do something, the question was raised what is the difference between a $250 raw tax credit and the flat $250 between $16,000 and $25,000, in this program; very simple. Every college student, virtually every college student coming from a family or themselves having a family -- a typical example would be a woman supporting two or three children who decides to go back and finish her college education as an opportunity to be a better source of support for her family; she presently is totally left out.

This new program lets her get into the same family income schedule as if she was the dependent student of someone else doing the working and providing the support for the family and for the first time will make it possible for her to get a grant that would in fact pay a substantial part of her tuition.

In addition to that, we are expanding the Guaranteed Student Loan Program to the point where the middle-income student who has been completely left out of that program is not only going to have an opportunity to borrow the money before school starts and have it on hand, but they are going to get the same interest subsidy that the low-income students get now.

And most important is that we avoid taking a lot of money out of the treasury and giving it to people who are in an income category where the money isn't going to make any difference in terms of whether someone goes to college or not. Any waste, if there be any, in terms of the money that is in this program that doesn't hit the middle-income children falls back to the low-income student.

As a matter of fact, every one of the programs is improved for the already qualifying low-income students at the same time that we qualify this new group of people. Unlike the tax credits, this program does not help the middle-income student at the expense of the low-income student. That is something we have worked toward.

That is part of the reason that we have this kind of an adjustment in the grants.

SECRETARY CALIFANO: I might add one other thing that is important to note about the tax credit. It seems to me as a Nation in the context of making educational policy coherently, it is very important that the financing for that educational policy, which is one of the major ways the Congress helps make that policy, be handled in a coherent way in the Congress.

There are committees on education that are expert in this area that in our judgment should be the repository of dealing with the financing problems.

Q Do you think a day will ever come that this Administration will want to give some financial help to families paying tuition for elementary or secondary school education?

SECRETARY CALIFANO: I have dealt with that question before. It is not really directly related to this. There are many problems with that. There is a public school system which is available for every child in this country.

That, I think, significantly distinguishes elementary and secondary school from higher education. I am one who sends my children to private school. I think I should pay the tuition at Georgetown Prep and Stone Ridge if I choose to do that.

Thirdly, that kind of a program in terms of policy could mark a total erosion of public education in the United States, a tradition that has been considered critical to the development of our society as a democratic and free society.

It could also create problems in terms of perpetuating or beginning academies to avoid racial integration and there may well be constitutional problems with it. I don't practice law anymore, but --

Q I would like to ask the Senators if they think now this co-opts the tax credit forces, what the opposition is going to be, how they would assess that?

SENATOR PELL: I don't know if that is the word. We hope this will come through as being a fairer, more equitable, more efficient, a better way of reaching the target. The target is the middle-income family. We will no doubt have votes on the other approach. I just hope that our Members see this as the Secretary fully described it, as the far better way of meeting the need.

Q Mr. Secretary, where is the money going to come from to pay for this program?

SECRETARY CALIFANO: Well, the money, the $1.2 billion of it is coming out of the contingency. The other $200-plus million was already identified in the HEW budget.

Yes?

Q Was any attempt made to determine the impact this program will have on minority education patterns?

SECRETARY CALIFANO: Yes, indeed. It goes to one of the points that Congressman Ford made. One of the important things about this program is that what we propose enhances the grants, loans and work study programs available to the low-income families and students. And we are not proposing a middle-class program at their expense.

Secondly, I note that the President's budget in terms of developing institutions calls for the full amount authorized by the Congress, I believe $110 million.

Q What is the target date for giving out those BEOG grants?

SECRETARY CALIFANO: This is in the fiscal 1979 budget. The money would be available on October 1, 1978.

Q Mr. Secretary, you have all the Members of Congress who are associated with working on educational grants up there, but no one who has jurisdiction over tuition credits. Have you talked to Senator Long and Chairman Ullman and what is their reaction on holding back the tuition credit?

SECRETARY CALIFANO: I think you will have to ask them what their reaction is.

Q Have you discussed the other half of this equation with them?

SECRETARY CALIFANO: I think the only Senator that I know that has vigorously expressed his view in recent months has been Senator Roth. I think I would let them speak for themselves on this subject.

Q Mr. Secretary, on October 19, 1976, when President Carter was campaigning before a group of Catholic educators, he told them he was firmly committed to finding constitutionally acceptable methods for providing aid to parents whose children attend parochial schools.

I believe the Democratic Platform had a plank that said pretty much the same thing. Does what you have said with regard to private elementary and secondary schools this morning mean that the Administration intends to forget that pledge or just what?

SECRETARY CALIFANO: The President also said he would provide aid to relieve the burden on the middle class. He is keeping that pledge. We are, in my judgment, and will continue to keep our pledge to support elementary and secondary parochial schools in a constitutional way.

There are provisions in the Elementary and Secondary Education Act which we are funding and through which we are providing a substantial amount of money to those schools. We have substantially increased the funding in that legislation. Those schools will benefit as a result.

Secondly, one of their major concerns as expressed to me and as mayors of large cities have expressed to me, is that the equipment that they are entitled to under the law does not get to them on a timely and prompt basis.

There is an authority in that legislation which permits us to bypass the State school superintendents if they do not move that equipment or books or what have you out fast enough to parochial schools. That authority was never used until the past couple of months and the Commissioner of Education has begun to use it to expedite the getting of material to those schools.

But I do not think that the tax credit which is of questionable constitutionality, which would seriously undermine public education in this country, is the way to provide help to those schools.

Q Bill Thomas from Congressional Quarterly. In October 1976, to get back to that question for a moment, President Carter promised the President of the Association of Chief Catholic School Administrators that if he were elected, he would find a way to aid parents, not simply schools, in paying tuitions at nonpublic schools.

Are you saying now that that has been decided to be unconstitutional by the Administration?

SECRETARY CALIFANO: No, I am talking about the tax credit. I said it is of questionable constitutionality. I was talking specifically about the tax credit. Every time we provide any assistance to nonpublic schools, we help the parents of those schools; obviously, and we are providing such assistance through the Elementary and Secondary Education Act. We are looking for other constitutional means to do this, but you know, the President was very careful --

and I draw a very sharp distinction between the candor with which President Carter dealt with this problem and the absolute false integrity, false hope with which President Nixon dealt with this problem when he promised the Catholic schools of this country aid, he knew he could not provide in a constitutional manner.

The President always indicated he would deal with this in a constitutional manner. I think those schools recognize in the work we have been doing with them over the past year, that we are fulfilling that pledge and we are continuing to look for ways to help them.

One more question.

Q Mr. Secretary, there is apparently a large problem with students defaulting on loans, apparently 25 percent or so. Is there anything built into this program to rectify that?

SECRETARY CALIFANO: We are within a month at HEW of substantial and significant administrative and other changes in all these programs to tighten up on those procedures. When we have all our plans in order, we will announce them.

I would note simply that the decision to move with all these programs was made with me, at least personally, and I think the gentlemen here, recognizing that we have the means to deal with the problems you raise and some other problems, and we can put in condition the administrative machinery to deal with them efficiently so that we use the taxpayers' money prudently.

Thank you.

END (AT 10:38 A.M.)

HEW NEWS

U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Embargoed for Release
After the Briefing
February 8, 1978

Contact: John Blamphin
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STATEMENT OF

SECRETARY JOSEPH A. CALIFANO, JR.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

President Carter is committed to increasing student financial aid for middle income families with children in college. Towards this end, the Administration is requesting a $1.46 million package of grants, work study and loans in fiscal 1979 to provide additional student assistance within the framework of existing federal programs. Of this total, $250 million was requested for these purposes in the President's budget, and the additional $1.21 billion request will come from the allowance for contingencies.

These proposals constitute an unprecedented increase in student aid programs for higher education from $3.8 billion in fiscal 1978 to $5.2 billion in fiscal 1979, a growth of almost 40 percent.

There should be no mistake that a President sits in the White House who cares deeply about the quality of education in America.

We are grateful for the advice and counsel given to us by the education leaders in the Congress -- Senator Williams, Senator Pell, Representative Perkins, Representative Ford, Representative Brademas and Representative Thompson. With their support, we can make this historic proposal a reality.

The Problem

In the last decade, the costs of sending a son or daughter to college have risen rapidly. Between 1967 and 1976, average college costs increased by 77% to levels so high that many middle income parents, themselves college graduates, have real fears that when the time comes they either will be unable to afford to give their children the benefits they received or will have to make extraordinary sacrifices to do so.

For poor families, the hope of having their children lifted out of poverty through the educational opportunities which they themselves did not have is likewise threatened.

Today, average costs for tuition, room, and board at a private college are over $4,800 per year, a total of $19,200 for the four years required to obtain a bachelor's degree. At some colleges, these yearly costs have risen to $6,000 or $7,000 or more. And it is not just costs at private schools which have skyrocketed. At many public universities today, a student can be expected to pay over $2,500 per year to cover education-related expenses.

For a family earning $25,000 -- the 90th percentile of income in this country -- $5-7,000 a year is obviously a great burden. It is, of course, an even greater burden for a family earning the median income of $15,000 per year -- then such a cost becomes almost overwhelming. And if families have two or three children in post-secondary schools, higher education costs can be prohibitive without financial assistance.

As President Carter indicated today, action is needed now to deal with this problem and to help assure that a lack of resources does not stand in the way of those who desire to go to college and who can benefit from the experience. Higher education is one of this nation's most vital resources, and we must make sure that qualified young Americans have full access to post-secondary education regardless of financial constraints.

The student aid programs passed by the Congress and administered by HEW were enacted to ensure access to a post-secondary education for children from the poorest families in our society. This goal is still a top priority of federal student assistance.

The participation rate of the poor in post-secondary education has risen dramatically and is fast approaching that of middle income families. We must continue and expand this commitment to students from poor families. But the time has also come to extend a helping hand to families who do not now receive these benefits but who also need them.

We must now also recognize that many middle income families are finding the educational opportunities of their children limited by lack of financial resources. And we must act to ease the burden middle income families must bear in paying for higher education.

The Proposal

To meet the urgent needs of middle income families who must shoulder the costs of higher education, we propose the following measures, which will require new budget authority for fiscal 1979 or legislative changes or both.

In the Basic Educational Opportunity Grant Program, which provides Federal assistance to students based on family income and the cost of college attendance, we will request an additional $1 billion over the $2.1 billion appropriated in fiscal 1978. With these funds, we will

- Provide BEOG grants to 3.1 million additional students (raising the total from 2.2 to 5.3 million);

- Guarantee a $250 grant to 2.8 million students from families with an annual income of up to $25,000, including assistance to at least 2 million students in the $16,000 to $25,000 range who had not previously participated in the BEOGs program.

- Increase the maximum grant for low income students from $1,600 to $1,800.

- Increase the amount of the average grant by $200 to students in families with incomes between $8,000 and $16,000 (from $850 to $1050).

- Eliminate inequities in the treatment of self-supporting students, particularly those who have dependents.

Nearly $700 million of the $1 billion increase we will seek in BEOGs will be concentrated on families with annual incomes between $16,000 and $25,000.

In the College Work Study Program, which provides 80 percent of the salary for a student's part-time job, we will request an additional $165 million over the $435 million appropriated in fiscal 1978.

With these funds we will help provide work opportunities for as many as 280,000 new students to bring the program total to more than one million students. Of this one million, approximately 380,000 will be from families with incomes above $16,000, and more than two-thirds of the additional $165 million will benefit 176,000 new students in the over $16,000 category.

In the Guaranteed Student Loan Program, which guarantees loan repayments and subsidizes interest costs, we will request an additional $327 million over the $540 million appropriated in fiscal 1978. Through technical amendments we will address a major problem with the GSL program -- the availability of capital -- by making participation more attractive to banks. We will also make families with incomes up to $45,000 eligible for an interest subsidy worth as much as $250 per year (the present income ceiling is $30,000).

In fiscal 1979, these changes in the GSL program will support an estimated 260,000 new loans to students with family income above $16,000. In fiscal 1978, we estimate that more than one million students had loans, with about 300,000 loans going to students with family incomes above $16,000.

With these steps in BEOGs, Work Study and the Guaranteed Student Loan program, we estimate that the number of awards in Federal student assistance programs will more than double from approximately 3.2 million in fiscal 1978 to more than 7 million in fiscal 1979. Because some students receive awards under more than one program, we estimate that more than 5 million college students nationwide will receive financial assistance from the Federal government in fiscal 1979, an increase of at least 2 million students over last year.

In sum, the proposals announced today by the President will go a long way towards easing the toll that the costs of higher education now exact from America's lower and middle income families.

Tuition Tax Credits

President Carter's balanced grant, loan and work study program is a far fairer and far more sensible way to provide financial assistance to middle income families with heavy college expenses than, as some have proposed, through a tuition tax credit.

Tuition tax credits, to put it bluntly, make neither educational nor fiscal sense.

- Tuition tax credits indiscriminately provide financial assistance regardless of either family income or the actual costs of higher education. We should not provide direct relief for educational costs to the very rich; rather we should base Federal financial assistance on real need to the extent possible.

- Tuition tax credits can be inordinately expensive. The post-secondary element of one proposal could cost as much as $4.4 billion.

- Tuition tax credits will unnecessarily fragment education policy among different Congressional committees.

- Tuition tax credits do not meet the needs of some families, especially those with higher than the median income, who would prefer loans to grants in order to spread a larger share of educational costs over time rather than receive a smaller financial boost in the short-term.

- Tuition tax credits are a blunt instrument which make it difficult to base educational financing decisions on the changing circumstances of college attendance and college costs.

The student assistance package proposed by the President is the best method for meeting the legitimate needs of middle income families who bear the costs of higher education, while at the same time providing needed assistance to low income families who rely largely or wholly on student aid to defray college expenses.

Finally, I would underscore that if Congress decides to add a tuition tax credit to the Administration's *proposed* tax package, then the President will oppose substantial increases in appropriations for Federal student assistance programs. We feel strongly that Congress must choose between tuition tax credits and the historic increases in Federal student assistance that the Administration is today proposing. This nation cannot afford both.

With the joint leadership of Congress and the Administration, we can make great strides in solving a problem that has bedeviled the middle income families of America. The proposals announced by the President -- and supported in broad outline by the education leadership of the Congress -- promise to relieve the burdens borne by those parents with children in institutions of higher learning.

This goal is one that has widespread support across this nation. I hope that Congress can act swiftly to enact the President's proposals.

# # #

TESTIMONY OF SECRETARY JOSEPH A. CALIFANO, JR., DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE BEFORE A JOINT HEARING OF THE SENATE COMMITTEE ON HUMAN RESOURCES AND THE HOUSE COMMITTEE ON EDUCATION AND LABOR, FEBRUARY 9, 1978

Chairman Williams, Chairman Perkins, Chairman Pell, Chairman Ford, members of the Senate Human Resources Committee and members of the House Education and Labor Committee:

President Carter is committed to increasing student financial aid for middle income families with children in college.

Toward this end, the Administration is requesting a $1.46 billion package of grants, work study and loans in fiscal 1979 to provide additional student assistance within the framework of existing federal programs. Of this total, $250 million was requested for these purposes in the President's budget, and the additional $1.21 billion request will come from the allowance for contingencies.

These proposals constitute an unprecedented increase in student aid programs for higher education from $3.8 billion in fiscal 1978 to $5.2 billion in fiscal 1979, a growth of almost 40 percent. It is, as Chairman Ford said yesterday, "the biggest single infusion of funding for middle income college students since the adoption of the GI bill at the end of World War II."

There should be no mistake that a President sits in the White House who cares deeply about the quality of education in America.

Moreover, if one considers the actual amount of grants, work, and loan funds that will be available to students as a result of these programs, the total is much greater -- more than $7 billion in FY 1979. This higher amount takes into account State and institutional matching, relending from institutional revolving funds, and loan funds generated by the private sector for which the Federal budget pays only subsidy and default costs.

We are grateful for the advice and counsel which you and other education leaders in the Congress have given to us. With your support, we can make this historic proposal a reality.

The Problem

In the last decade, the costs of sending a son or daughter to college have risen rapidly. Between 1967 and 1976, average college costs increased by 77% to levels so high that many middle income parents have real fears that when the time comes they either will be unable to afford to give their children the benefits they received from a college education or will have to make extraordinary sacrifices to do so.

For poor families, the hope of having their children lifted out of poverty through the educational opportunities which they themselves may not have enjoyed is likewise threatened.

Today, average costs for tuition, room, and board at a private college are over $4,800 per year, a total of $19,200 for the four years required to obtain a bachelor's degree. At some colleges, these yearly costs have risen to $6,000 or $7,000 or more. And it is not just costs at private schools which have skyrocketed. At many public universities today, a student can be expected to pay over $2,500 per year to cover education-related expenses.

For a family earning $25,000 -- the 90th percentile of income in this country -- $5-$7,000 a year is obviously a great burden. It is, of course, an even greater burden for a family earning the median income of $15,000 per year -- then such a cost becomes almost overwhelming. And if families have two or three children in post-secondary schools, higher education costs can be prohibitive without financial assistance.

As President Carter indicated yesterday, action is needed now to deal with this problem and to help assure that a lack of resources does not stand in the way of those who desire to go to college and who can benefit from the experience. Higher education is one of this nation's most vital resources, and we must make sure that qualified young Americans have full access to post-secondary education regardless of financial constraints.

The student aid programs passed by the Congress and administered by HEW were enacted to ensure access to a post-secondary education for children from the poorest families in our society. This goal is still a top priority of student financial assistance.

The participation rate of the poor in post-secondary education has risen dramatically and is fast approaching that of middle income families. We must continue and expand this commitment to students from poor families. But the time has also come to provide assistance to families who do not now receive benefits but who also need them.

We must now also recognize, as a matter of statute, that many middle income families are finding the educational opportunities of their children limited by lack of financial resources. And we must act to ease the burden middle income families bear in paying for higher education.

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- Provide BEOG grants -- affectionately known in many parts of the country as Pell grants, after you Mr. Chairman -- to 3.1 million additional students (raising the total from 2.2 to 5.3 million);

- Guarantee a $250 grant to 2.8 million students from families with an annual income of up to $25,000, including assistance to at least 2 million students in the $16,000 to $25,000 range who had not previously participated in the BEOGs program.

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- Increase the amount of the average grant by $200 to students in families with incomes between $8,000 and $16,000 (from $850 to $1050).

- Eliminate inequities in the treatment of self-supporting students, particularly those who have dependents.

Nearly $700 million of the $1 billion increase we will seek in BEOGs will be concentrated on families with annual incomes between $16,000 and $25,000. In the past, as you know, BEOG grants have concentrated heavily on lower income families. This new money in BEOG recognizes the past effort, and seeks to meet a new need.

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With these steps in BEOGs, College Work Study and the Guaranteed Student Loan program, we estimate that the number of awards in Federal student assistance programs will more than double from approximately 3.2 million in fiscal 1978 to more than 7 million in fiscal 1979. Because some students receive awards under more than one program, we estimate that more than 5 million college students nationwide will receive financial assistance from the Federal government in fiscal 1979, an increase of at least 2 million students over last year.

As you know, most of the Federal student assistance programs are up for reauthorization next year. At that time, we may wish to present more detailed changes not just in BEOGs and College Work Study, but also in other student assistance programs -- Supplemental Educational Opportunity Grants, State Student Incentive Grants and National Direct Student Loans.

But we believe that the middle income problem is so urgent that we need to offer a solution that can secure swift Congressional enactment. The President's proposals will go a long way towards easing the toll that the costs of higher education now exact from America's lower and middle income families. And they will provide an excellent base upon which to build as Congress and the Administration consider reauthorization next year.

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- Tuition tax credits can be inordinately expensive. The post-secondary element of one proposal could cost as much as approximately $4.4 billion.

- Tuition tax credits will unnecessarily fragment education policy among different Congressional committees.

- Tuition tax credits do not meet the needs of some families, especially those with higher than the median income, who would prefer loans to grants in order to spread a larger share of educational costs over time rather than receive a smaller financial boost in the short-term.

- Tuition tax credits are a blunt instrument which make it difficult to base educational financing decisions on the changing circumstances of college attendance and college costs.

The student assistance package proposed by the President is the best method for meeting the legitimate needs of middle income families who bear the costs of higher education, while at the same time providing needed assistance to low income families who rely largely or wholly on student aid to defray college expenses.

Finally, I would underscore that if Congress decides to add a tuition tax credit to the Administration's proposed tax package, then the President will oppose substantial increases in appropriations for Federal student assistance programs. We feel strongly -- as I know you do too -- that

Congress must choose between tuition tax credits and the historic increases in Federal student assistance that the Administration is proposing. This nation cannot afford both.

With the joint leadership of Congress and the Administration, we can make great strides in solving a problem that has bedeviled the middle income families of America. The proposals announced by the President -- and supported in broad outline by you, the education leadership of the Congress -- promise to relieve the burdens borne by those parents with children in institutions of higher learning.

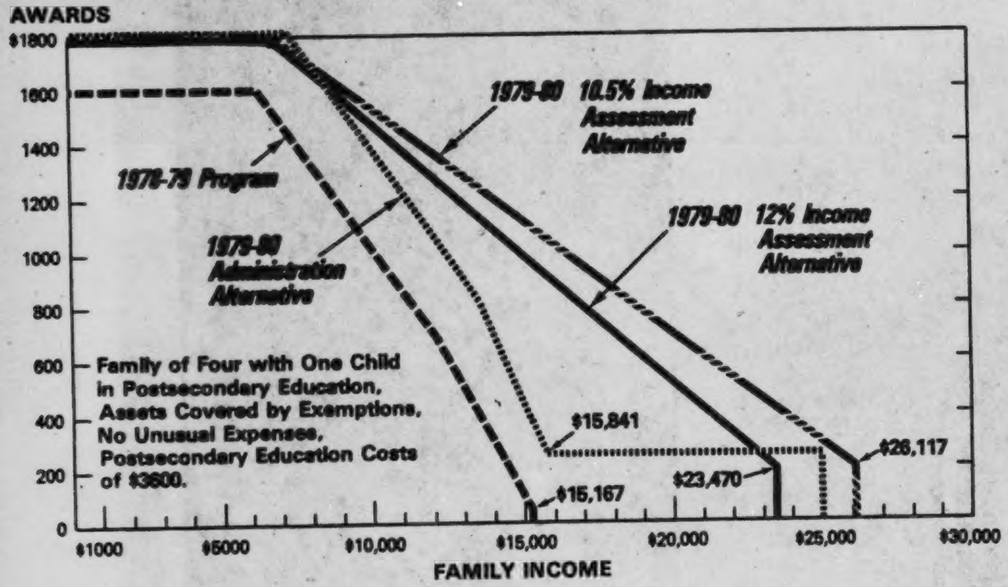
This goal is one that has widespread support across this nation. I hope that Congress can act swiftly to enact the President's proposals.

Thank you.

# # #

BASIC EDUCATIONAL OPPORTUNITY GRANTS

Awards for a Family of Four at Different Income Levels



Family of Four with One Child in Postsecondary Education, Assets Covered by Exemptions, No Unusual Expenses, Postsecondary Education Costs of $3600.

3/6/78

FEDERAL AID TO POSTSECONDARY STUDENTS:

TAX ALLOWANCES AND ALTERNATIVE SUBSIDIES

The Congress of the United States
Congressional Budget Office

ERRATA

Federal Aid to Postsecondary Students:
Tax Allowances and Alternative Subsidies

Paragraph two refers to the requestor of this study as Chairman William D. Ford of the House Committee on Education and Labor. Congressman Ford is actually Chairman of the Subcommittee on Postsecondary Education of the House Committee on Education and Labor. The latter committee is chaired by Congressman Carl Perkins.

PREFACE

For nearly twenty years, tax allowances for the expenses of higher education have been proposed in the Congress, but none has been enacted into law. In light of Congressional concern about the ability of middle-income families to afford a higher education for their children, Congressional interest in education tax allowances is likely to persist. As it continues to deliberate about how to provide more aid to students, the Congress may want to consider alternatives to education tax allowances.

Federal Aid to Postsecondary Students is intended to assist in deliberations of this subject by analyzing various aspects of tax allowances for education and alternative subsidies. The study was prepared in response to a May 1977, request from Chairman William D. Ford of the House Committee on Education and Labor. In accordance with the Congressional Budget Office's mandate to provide nonpartisan analysis of issues before the Congress, the study offers no recommendations.

Frank S. Russek, Jr., of CBO's Tax Analysis Division prepared the report with assistance from Richard Wabnick of the Human Resources Division. A number of other people within CBO gave valuable comments and suggestions, including Charles Davenport, David S. Mundel, and James Verdier. In addition, many people outside of CBO helped in the preparation of the report, including Harry Boissevain, David W. Breneman, Rosalind Bruno, Anthony P. Carnevale, Jean Frohlicher, William Goggin, Thomas R. Jolly, John Karr, Donald W. Kiefer, John K. McNulty, Dan Morrissey, Darla Schecter, Eugene Steuerle, Stanley S. Surrey, Ira Tannenbaum, and Peter K. Voigt. The paper was prepared for publication under the supervision of Johanna Zacharias, Martha B. Roberts edited the manuscript, and Alda Seubert and Shirley Hornbuckle typed it.

Alice M. Rivlin
Director

January 1978

SUMMARY

Tax allowances for the expenses of higher education have been considered in the Congress since the 1950s, but no proposal has ever passed both Housses. Proponents of tax allowances for education argue in particular that more assistance than middle-income families now get is needed. The Congress' interest in such allowances reflects a continuing concern about these families' ability to finance higher education without more aid from the federal government.

In fiscal year 1977, the federal government provided $8.5 billion in student aid in the form of direct outlays and tax expenditures. Students from families with incomes between $10,000 and $20,000 (accounting for 33 percent of all students) received 36 percent of this sum although they received a smaller share--21 percent--of the $2.3 billion disbursed under programs based on need.

The enrollment rate of dependents between ages 18 and 24 from middle-income families has declined somewhat since 1967. In recent years, however, the rate has begun to go back up. How much rising college costs account for lower enrollment rates among middle-income students in the past decade is unclear since median family incme has risen faster than average college costs. Between 1967 and 1976, charges for college tuition and other fees, plus room and board, rose about 75 percent. In comparison, median family income increased almost 89 percent. The incomes of those families whose incomes were in the top 20 percent rose 95 percent. Perhaps certain factors other than cost help explain enrollment rate declines. Such factors may include reduced requirements for military manpower, families' preferences to spend money on items other than education, the choice of whether to work or study, or the diminishing rate of return on the investment in higher education.

A tax allowance for education is one way to give more financial relief to middle-income families. It could take the form of a credit, a deduction, or a deferral. Any of these three tax allowances would aid middle-income families although none would be especially effective in concentrating aid on this group. A number of nontax alternatives could also aid middle-income families. Some of these may be more consistent with present tax and education policy. In addition, these might lower budgetary cost.

Five alternatives are analyzed in this report:

- Tax credit or credit/deduction options,
- Basic Educational Opportunity Grants,
- Student loans,
- Loans to parents, and
- Tax deferrals.

CRITERIA FOR EVALUATION OF STUDENT AID PROGRAMS

Five criteria are used to evaluate the options considered in this report:

- Cost and distributional efficiency--How much does a program cost? What fraction of total benefits accrues to middle-income students or their families?
- Fairness and equity--Do all recipients get the same amount of benefits, or are benefits related to the income of recipients?
- Maintaining institutional diversity--How does the subsidy affect the absolute and relative cost differences between public and private institutions?
- Ease of administration--Does a subsidy program have few or many eligibility restrictions? Is the agency that administers the program experienced at making the required evaluations?
- Budget visibility and controllability--Is the subsidy program subject to annual review in the budgetary process? Are its outlays subject to control?

COST, DISTRIBUTIONAL EFFICIENCY, AND EQUITY OF ALTERNATIVE PROGRAMS OF AID FOR MIDDLE-INCOME STUDENTS

If the Congress decides to concentrate more aid on middle-income families, major consideration should be given to how best to channel adequate and equitable assistance to the target group. In assessing the options with respect to their costs, distributional efficiency, and fairness, this report draws the conclusions discussed below.

Tax Credit or a Credit/Deduction Option

Two possible tax allowances for higher education expenses are a nonrefundable tax credit of $250 per student (prorated for part-time students) and an option for taxpayers to choose between a nonrefundable $200 credit or a $1,000 deduction for tuition, books, fees, supplies, and equipment.

A tax credit plan of this sort would cost the U.S. Treasury about $1.7 billion in the first year, while the credit/deduction option would cost roughly $1.9 billion. The tax credit plan would be more efficient than the credit/deduction option in focusing aid on middle-income families. About 49 percent of the benefits from the credit-only plan would go to families with incomes between $10,000 and $25,000, while only 42 percent of the benefits from the credit/deduction option would go to this income group. The distribuiton of these benefits could be concentrated in low- and middle-income groups by reducing or eliminating the subsidy on income levels above $25,000. The subsidy could also be reduced for the first student a family has enrolled in school.

The credit/deduction option would extend larger benefits to those with higher marginal tax rates. The credit-only plan would offer the same amount of benefits to all qualified students with family tax liabilities of at least $250 and thus might be considered more equitable.

Basic Educational Opportunity Grants

Additional federal aid could be provided to middle-income students by liberalizing the Basic Educational Opportunity Grants (BEOG) program. The benefits of the program--now aimed mostly at low- and moderate-income students--could be extended to those in somewhat higher income groups by raising the maximum award to $2,100 and by reducing from 30 percent to 20 percent the fraction of discretionary income above $5,000 that a family is expected to contribute toward higher education financing. (The Education Amendments of 1976 raised the maximum award from $1,400 to $1,800, but appropriations for fiscal year 1978 effectively imposed a ceiling of $1,600.)

Such changes in the BEOG program, costing about $800 million, would benefit approximately 490,000 more students in the middle-income class ($10,000 to $25,000). This plan would provide about 72 percent of the additional benefits to middle-income students and thus would rank much higher in terms of distributional efficiency than the tax credit and credit/deduction plans, which focus less than half of total benefits on fmailies with incomes between $10,000 and $25,000.

The average additional award for those brought into the program as a result of the described program changes would vary with the family income of the recipient; it would be larger for middle-income families than for low-income families. In this respect, the distribution of benefits resembles that of the credit/deduction option. Those who maintain that education subsidies should be distributed equally among all recipients might therefore view this option as somewhat less equitable than the tax credit, which provides about the same benefit for all students with family tax liabilities of at least $250.

Guaranteed Student Loans

Before 1976, eligibility for some federal interest subsidies on guaranteed student loans was lost when adjusted family income reached $15,000. The Education Amendments of 1976 raised this ceiling to $25,000 (equal to about $31,000 of adjusted gross income), thus expanding eligibility to about 85 percent of all students; the amendments also increased from $10,000 to $15,000 the total amount that a student can borrow for undergraduate and graduate training.

The additional benefit to middle-income families resulting from the 1976 amendments probably could be enhanced most by providing larger incentives for banks to include more guaranteed student loans in their loan portfolios. Banks might be willing to provide more funds if their net rate of return were improved by reducing the costs of complying with administrative procedures and by increasing the federally subsidized interest payments to banks.

The federal cost of an expanded Guaranteed Student Loan Program (GSLP) is difficult to estimate since it depends on the additional volume of student loans as well as on the federal interest and default payments per dollar of loans. Also the distributional efficiency of this way of aiding middle-income families is difficult to quantify. Banks not only have wide discretion in determining the amount of GSLs they will make but also select the individuals to whom such loans will be made. Middle-income families, however, might benefit disproportionately, especially if banks think middle-income borrowers are good risks.

Since all qualified students are eligible for the same amount of loan, an expanded GSLP probably would be considered equitable by those who maintain that education subsidies should be distributed equally among all recipients.

Loans to Parents

Another possible way to ease the liquidity problems of middle-income families would be to establish a guaranteed loans-to-parents program. Such a program might not share the deficiencies of the GSLP--high default rate for example--and therefore might prove more attractive to private lenders.

The terms of a guaranteed loans-to-parents program might include a loan limit of as much as $5,000 per student per year, a repayment period of between 5 and 10 years, and an interest rate of between 8 percent and 10 percent (perhaps varying with the length of the repayment period).

The cost to the Treasury of a guaranteed loans-to-parents program would depend upon the volume of loans made, the default rate on these loans, and the size of any necessary federal supplemental interest payments to banks. The federal costs per dollar of loans made to parents are likely to be lower than that of the GSLP because of smaller federal interest subsidies and a lower default rate. The percentage of loans to parents that would go to middle-income families would depend upon which families apply for loans and to whom banks decide to lend.

The equity of this program--with same loan amounts available to all families--would likely rank high among those who believe that education subsidies should be distributed equally among recipients.

Tax Deferrals

Higher education loans can be provided through the tax system by allowing taxpayers to postpone a portion of their tax payments. For example, a tax deferral equal to education expenses not exceeding $1,500 annually might be permitted each year a student is in school. Repayments could be made in 10 equal annual installments, beginning one year after graduation. An interest rate of 7 percent (equal to that on guaranteed student loans) could be charged to cover the Treasury's borrowing costs, or a lower interest rate could be charged to provide a larger subsidy.

A tax deferral plan of this sort would have an initial cost of about $8.8 billion, but the annual net cost to the Treasury would decline substantially as taxpayers begin to repay their deferred taxes. The program would be less efficient than an expanded Basic Educational Opportunity Grants program in distributing aid to middle-income families since only 53 percent of the benefits would go to families earning between $10,000 and $25,000.

Only those with tax liabilities as large as the highest permitted deferral would benefit fully from this program. Large tax deferrals would therefore benefit those in high tax brackets more than those in low tax brackets. This distributional outcome might not be satisfactory to those who maintain that education subsidies should be distributed equally among all taxpayers or be distributed on the basis of need.

OTHER CRITERIA APPLIED TO STUDENT AID PROGRAMS

Applying the remaining tests to the alternative programs shows a number of common threads (and a few anomolies) running through the tax alternatives--credits, deductions, deferrals--and through the nontax options--guaranteed loans to either students or parents and an expanded BEOG program.

Maintaining Institutional Diversity

Tax Options. Students would generally get the same amount of aid whether they attend a public institution or a private one (in the case of tax deferrals this applies if the college costs at least equal the deferral). The absolute cost difference between public and private schools, therefore, would not be changed for most students. Tax programs, however, would generally represent a greater percentage reduction of costs at public institutions and thus would magnify the relative cost difference between public and private schools. The increase in the relative price of private institutions might put them at a disadvantage.

Nontax Options. For loan programs, the short-run impact on the competitive balance between public and private institutions depends upon the share of costs parents or students borrow; excepts for interest payments, loan programs would not change the long-run cost differences between public and private schools. Changes in the BEOG program generally would lower the cost of attending public instituitons by a greater proportion than the cost of attending private ones, possibly putting private institutions at a disadvantage.

Ease of Administration

Tax Options. Both the credit-only and the credit/deduction options would be fairly easy to administer because few eligibility restrictions are imposed on tax programs and only a small fraction of tax returns are audited. Tax deferrals with long payback periods would not be as easily administered because records and accounts would have to be maintained for about 15 years.

Nontax Options. The administrative burden of BEOGs includes verifying a high share of claims to detect fraud and abuse. Student loan programs have been beset by high default rates and delinquency. A loan program for parents could prove easier to administer than the student program because of the likelihood of fewer defaults and greater ease in collecting overdue payments.

Budget Visibility and Controllability

Tax Options. These would rank low in visibility and controllability. Like other tax expenditures, these tax allowances would not be subject to the same amount of review and scrutiny that is given most direct outlay programs. Moreover, they are entitlement programs that provide benefits to all who qualify and therefore are not subject to fixed ceilings on appropriations. The magnitude of tax deferrals tends to be less visible as repayments offset new deferrals.

Nontax Options. Loans are moderately visible in the budgetary process but are not very controllable. Unlike tax expenditures, federal outlays for such programs are subject to annual review. But because they are entitlements, loan programs are less controllable than other direct spending programs whose costs can be limited by the budgetary process. The BEOG program, in addition to being fairly visible, is also controllable through the appropriations process. Generally, however, when a reduction in the average individual award would have been required to stay within the initial appropriation ceiling, supplemental appropriations have been granted.

SUMMARY OF ANALYSIS OF ALTERNATIVE WAYS TO PROVIDE ASSISTANCE TO MIDDLE-INCOME STUDENTS

	Criteria	
Program	Percent of Benefits Going to $10-25,000 Income Group	Distribution of Average Benefits
Nonrefundable $250 tax credit ($1.7 billion) a/	49	Equal for full-time students with sufficient family tax liability
Liberalized Basic Educational Opportunity Grants Program ($800 million) a/	72	Increase goes largely to middle-income students
Expanded Guaranteed Student Loan Program b/	Uncertain	Potentially equal for all eligible students
Loans-to-Parents Program c/	Uncertain	Potentially equal for all families with students
$1,500 Tax Deferral ($8.8 billion) a/	53	Equal for full-time students with sufficient family tax liability

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a/ Initial first-year cost to the Treasury.
b/ Cost estimate not available; federal cost for fiscal year 1977 was $447.6 million (volume of loans was $1.47 billion.
c/ Cost estimate not available, but federal cost would likely be lower than costs for Guaranteed Student Loan Program.

(Summary Table Continued)

Criteria		
Impact on Public & Private Colleges	Ease of Administration d/	Budget Visibility and Controllability
Absolute cost difference unchanged; relative cost of private schools increased	Medium-High	Low
Absolute cost difference generally unchanged: relative cost of private schools generally increased.	Medium	High
Variable	Medium	Medium
Variable	Medium-High	Medium
Absolute cost difference generally unchanged; relative cost of private schools generally increased in short run	Low-Medium	Low

d/ In general, programs with few eligibility limitations are easier to administer.

CHAPTER I. INTRODUCTION

The issue of tax allowances for the personal costs of higher education deserves analysis for at least three reasons. First, the matter has been considered in the Congress for many years, and interest in it remains high. Second, proposals for education tax allowances are gaining more support as Congressional concern about the ability of some families--particularly middle-income families--to finance their children's higher education expenses grows. Third, the issue is representative of many others in which the Congress must decide whether the tax structure is an appropriate mechanism for providing a subsidy.

Education tax allowances have not yet been put to a vote in the House of Representatives. 1/ In 1967 the Senate passed an amendment that would have provided a tax credit for certain higher education expenses. Similar action was taken by the Senate in 1969, 1971, twice in 1976, and again in 1977. At no time, however, have these amendments gone beyond conference committees. 2/

Concern about the ability of middle-income families to provide a higher education for their children has driven much of the effort to enact an education tax allowance. From time to

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1/ In the Second Concurrent Resolution on the Budget for Fiscal Year 1978, however, the budgetary targets adopted allowed $175 million for possible passage of an education tax allowance. See Congressional Record, daily ed., September 8, 1977, pp. H9028-30, and September 9, 1977, pp. S14510-16. Also, hearings on college tuition tax credits were held by the House Budget Committee's Task Force on Tax Expenditures, Government Organization and Regulation (April 28 and May 12, 1977). See Report on Hearings before the Task Force on Tax Expenditures, Government Organization and Regulation on College Tuition Tax Credits, House Committee on the Budget, 95 Cong. 1 sess. (Committee Print 95-12, November 1977).

2/ For a brief description of these amendments, see Chapter 3.

time, this concern has been heightened by reports that the college enrollment rate for children from middle-income families is declining and that inflation-induced increases in college costs may become so large that the average family will not be able to afford the expenses of college. Reports of this sort stimulate interest in providing more student aid for those who benefit relatively little from existing federal subsidies for higher education that are based on need. Such interest appears to be on the rise.

If the Congress decides to provide more student aid for middle-income families, it may be useful to consider alternatives to education tax allowances. Some other form of subsidy may be more consistent with tax policy and education policy and more effective in providing assistance to students and their families at lower budgetary costs.

The analysis that follows is designed to help in the evaluation of education tax allowances as a form of aid for middle-incme families. It does not address the more fundamental issues of whether additional federal funds should be spent on higher education [3] and, if so, whether education policy objectives are best served by focusing more aid on middle-income families. To provide a better understanding of the problems facing middle-income families, Chapter II briefly discusses the current distribution of student aid among income groups and examines data on college enrollment rates, family incomes, and college charges. Chapter III presents a general discussion of education tax allowances, including consideration of the various forms such allowances can take and a brief legislative history of Senate-approved measures. In Chapter IV a set of criteria or standards is suggested for comparing different student aid subsidies. Then in Chapter V these criteria are used to evaluate alternative approaches to providing student aid for middle-income families.

3/ For a discussion bearing on this issue, see John K. McNulty, "Tax Policy and Tuition Credit Legislation: Federal Income Tax Allowances for Personal Costs of Higher Education," California Law Review, vol. 61 (January 1973), pp. 1-80.

CHAPTER II. THE BURDEN OF COLLEGE COSTS FOR STUDENTS AND THEIR FAMILIES

The basic goal of most proposals for education tax allowances is to provide financial relief to middle-income families, although education subsidies may serve broader objectives, such as insuring equal access to higher education and maintaining the financial viability of higher education institutions. 1/ Although all families are affected by rising college fees, middle-income families seem especially burdened since they receive relatively little assistance from the needs-tested higher-education aid programs focused on low- and moderate-income groups and since they lack the financial resources available to high-income families.

Data from the Bureau of the Census suggest that the college enrollment rate for 18- to 24-year-old dependents of middle-income families has fallen somewhat over the past decade. 2/ This decline is often attributed to the financial pressures imposed by soaring college costs, although other factors, such as reduced

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1/ For a discussion of various goals that may be served by education subsidies, see Congressional Budget Office, Postsecondary Education: The Current Federal Role and Alternative Approaches (February 1977), and John K. McNulty, "Tax Policy and Tuition Credit Legislation: Federal Income Tax Allowances for Higher Education," California Law Review, vol. 61 (January 1973), pp. 1-80.

2/ U.S. Bureau of the Census, Current Population Reports, Series P-60, "School Enrollments--Social and Economic Characteristics of Students, October 1976" (forthcoming).

military manpower requirements, declining rates of return from a college education, 3/ family preferences for noneducation purchases, and simply the decision by some to work rather than study, also may have contributed. The extent to which enrollment rates have dropped as a result of rising college costs is unclear since family incomes in general have risen faster than college charges.

THE DISTRIBUTION OF FEDERAL STUDENT AID

In fiscal year 1977 the federal government provided about $8.5 billion of student aid in the form of direct spending programs and tax expenditures. Fifty-two percent of this aid benefited self-supporting students 4/ and students from families earning less than $10,000 annually, groups that accounted for 29.3 percent of total student enrollment. Students from families earning between $10,000 and $20,000 received about 36 percent of the aid and represented 32.5 percent of all students. The remaining funds went to families earning more than $20,000.

Tables 1 and 2 show the distribution of federal aid provided through various existing tax expenditures, direct grants (including payments for specified work), loans, and loan guarantees. Federal direct student aid programs, for the most part, have been designed to expand access to higher education for those with lower incomes. 5/ In contrast, most tax expenditures that provide student aid have not been designed specifically to do so;

3/ Changes in the rates of return from a college education are examined in Richard B. Freeman, "The Decline in the Economic Rewards to College Education," The Review of Economics and Statistics, vol. 59 (February 1977) pp. 18-29.

4/ Most self-supporting students have annual incomes below $10,000.

5/ For a discussion of current education policy goals, see Congressional Budget Office, Postsecondary Education: The Current Federal Role and Alternative Approaches, Budget Issue Paper, February 1977.

TABLE 1. DISTRIBUTION OF AID TO STUDENTS BY INCOME CLASS, FISCAL YEAR 1977, IN MILLIONS OF DOLLARS

	(Dollars in Thousands) Amount to Family Supported Students (Grouped by Adjusted Gross Family income)				
Program	0-10	10-20	20+	Self-supporting Students	Total
Tax Expenditures					
Exemption for student dependence	114	372	229	g/	715 a/
Exclusion of fellowships and scholarships	134	70	16	g/	220 a/ b/
Exclusion of G.I. Bill education benefits	143	32	15	g/	190 a/ b/
Exclusion of student social security benefits	64	23	13	g/	100 a/
Outlays for Major Student Aid Programs					
Basic Educational Opportunity Grants	777	230	c/	432	1,439 d/
Supplemental Educational Opportunity Grants	140	52	2	54	248 d/
Work/study programs	168	97	21	72	358 d/
National Direct Student Loans	106	109	30	50	295 d/
Guaranteed student loans	188	238	22	g/	448 b/ d/ e/
G.I. Bill education benefits	1,304	1,463	413	g/	3,180 f/
Social security student benefits	694	398	193	g/	1,285 f/
Total	3,832	3,084	954	608	8,478
	(Students in Thousands)				
Distribution of All Students b/ f/	3,370	3,738	4,392	g/	11,500

a/ Emil Sunley, "Federal and State Tax Policies," paper prepared for the Brookings Institution Conference on "Public and Private Higher Education," November 11-12, 1977.
b/ Includes self-supporting students.
c/ Amount insignificant.
d/ Budget Office, U.S. Office of Education.
e/ Includes interest payments of $305 million and default payments of $142.6 million.
f/ CBO estimate.
g/ Incorporated under other headings.

TABLE 2. PERCENTAGE DISTRIBUTION OF STUDENT AID BY INCOME CLASS, FISCAL YEAR 1977 a/

Program	(Dollars in Thousands) Adjusted Gross Family Income 0-10	10-20	20+	Self-supporting Students
Tax Expenditures a/ b/				
Exemption for student dependence	16	52	32	c/
Exclusion of fellowships and scholarships	61	32	7	c/
Exclusion of G.I. Bill education benefits	75	17	8	c/
Exclusion of Student social security benefits	64	23	13	c/
Outlays for Major Student Aid Programs b/				
Basic Educational Opportunity Grants	54	16	d/	30
Supplemental Educational Opportunity Grants	56	21	1	22
Work/study programs	47	27	6	20
National Direct Student Loans	36	37	10	17
Guaranteed student loans a/	42	53	5	c/
G.I. Bill education benefits a/	41	46	13	c/
Social security student benefits	54	31	15	c/
Total	45.2	36.4	11.2	7.2
Distribution of All Students a/ b/	29.3	32.5	38.2	c/

a/ Includes self-supporting students.
b/ CBO estimate.
c/ Incorporated under other heading.
d/ Amount insignificant.

they have resulted instead from legislation and rulings concerned primarily with issues of tax policy. 6/

Tax expenditures provide direct assistance to students and their families in two ways. First, the tax law allows a student to be claimed as a dependent even if the student has an adjusted gross income greater than the $750 ceiling for nonstudents. Second, no taxes are imposed on income received in the form of scholarships, fellowships, student social security benefits, or education benefits under the G.I. Bill. These exemptions and exclusions lower taxable income to which progressive tax rates are applied. Thus they are worth more to taxpayers with high marginal tax rates than to those with low marginal tax rates. 7/

Other tax expenditures (not shown in Tables 1 and 2) assist students indirectly by providing aid to institutions. These include: the charitable deduction for contributions to schools, the exclusion of unrealized capital gains on these gifts and bequests, the deduction of state and local taxes used for higher education, and the exemption of interest on state and local borrowing for education purposes. The U.S. Department of the Treasury has cited figures showing that these tax expenditures totaled $2.6 billion in fiscal year 1977. 8/

As shown in Tables 1 and 2, except for guaranteed student loans and G.I. Bill education benefits, direct federal student aid programs concentrate funds on students in low- and moderate-

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6/ See John C. Chommie, The Law of Federal Income Taxation (Second Edition) (West Publishing Company, 1973), pp. 52, 62-66, 220.

7/ In the case of the exemption for student dependents, a $35 personal tax credit is also granted. This tax saving is the same for all taxpayers in terms of after-tax income but is worth more to high-income taxpayers in terms of before-tax income. For more discussion of this point, see Chapter III, footnote 3.

8/ Emil Sunley, "Federal and State Tax Policies," paper prepared for the Brookings Institution Conference on "Public and Private Higher Education," November 11-12, 1976, incorporated in income groups. (Appendix A outlines the major student aid programs.) This distribution results because all of these other programs, except for social security, are needs-tested with the definition of financial need taking into account college costs as well as family income. Although student social security benefits are not needs-tested, benefits are reduced if the parents of recipients or recipients who are surviving dependents earn more than specified maximums. Because the Guaranteed Student Loan Program and G.I. Bill education benefits are not needs-tested, a greater proportion of benefits from these programs accrue to middle-income students.

ENROLLMENT CHANGES DURING THE 1967-1976 DECADE

While the overall college enrollment rate for dependent 18- to 24-year-olds has not changed much between 1967 and 1976, the enrollment rate for students from middle-income and high-income families has declined, especially when compared to the somewhat increased enrollment rate for low-income students. 9/ Enrollment rates for all income groups, however, have risen recently from the 1973-1974 low point, particularly for those in the middle-income classes.

Table 3 and the Figure show that the overall enrollment rate for dependent family members rose during the late 1960s, reflecting in part the decision by some males to enroll in college rather than to join the military. Between 1969 and 1974 the overall enrollment rate declined somewhat, reflecting mainly a drop in the enrollment rate for men, with that of women remaining fairly stable. After 1974, however, the enrollment rate for 18- to 24-year-olds rose again, largely reflecting substantial increases in the enrollment of women. 10/

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testimony of Assistant Secretary of the Treasury for Tax Policy, Laurence N. Woodworth, in College Tuition Tax Credits, Hearings before the House Budget Committee Task Force on Tax Expenditures, Government Organization and Regulation, 95: 1, p. 14.

9/ Bureau of the Census, "School Enrollments."

10/ For a male-female breakdown of individual student enrollment rates, see Bureau of the Census, "School Enrollments."

TABLE 3. PERCENT OF 18- TO 24-YEAR-OLD DEPENDENT FAMILY MEMBERS a/ ENROLLED IN COLLEGE, BY FAMILY INCOME, b/ OCTOBER 1967 TO OCTOBER 1876

	Percent Enrolled									
Family Income	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
\$ 0-\$ 8,525	20.0	22.5	24.8	20.8	22.8	22.6	20.1	20.3	23.5	22.4
\$ 8,525-\$17,050	37.9	38.5	38.8	36.6	35.4	34.2	31.2	31.7	35.1	36.3
\$17,050-\$25,575	51.9	50.7	50.6	48.4	46.4	44.2	42.7	41.4	45.4	47.5
\$25,575+	68.3	63.0	65.2	61.7	61.8	56.9	56.6	57.5	59.6	58.2
All income groups	39.1	39.7	41.3	39.1	38.9	37.8	36.6	36.2	38.7	38.8

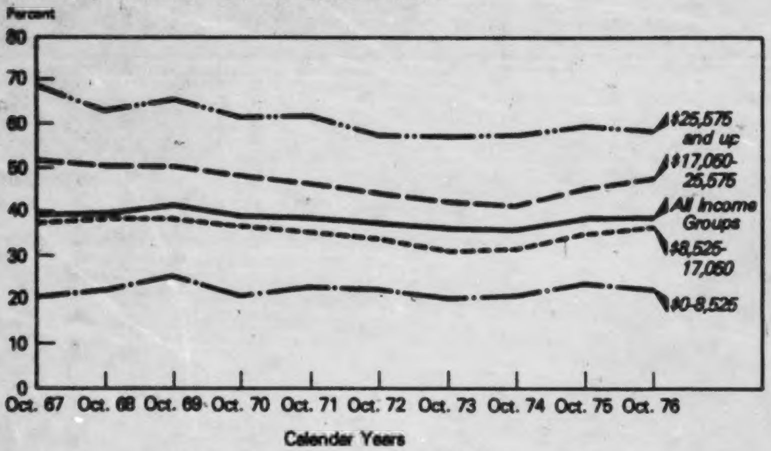
SOURCE: CBO calculations based on data supplied by the Census Bureau.

a/ A dependent family member is a relative of the primary family head other than the wife.

b/ Family income in 1976 dollars, civilian noninstitutional population.

Figure

Percent of 18-24-Year-Old Dependent Family Members[a] Enrolled in College, by Family Income[b] October 1967 to October 1976



a/ A dependent family member is a relative of the primary family head other than the wife.

b/ Family income in 1976 dollars for civilian noninstitutional population.

Table 3 and the Figure also indicate how the pattern of enrollment rates has varied by income class (adjusted for inflation) 11/ in recent years. The lowest and highest income groups

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11/ Failure to adjust enrollment data for the effect of inflation on family income can produce misleading conclusions. Enrollment decisions are based in part on what a family can afford, and this in turn is affected by inflation. Families earning $10,000 or $20,000 today are less well-to-do than families

($0-$8,525 and $25,575-plus) showed declines of roughly 10 percent between 1969 (the peak year) and 1976, while the enrollment rates for the two middle-income groups fell somewhat less--6 percent. Since 1974 the percentage increase in the enrollment rate for the two middle-income classes ($8,525-$17,050 and $17,050-$25,575) has been more than twice as large as the growth of enrollment rates for 18- to 24-year-olds in general.

GROWTH OF COLLEGE CHARGES, FAMILY INCOME, AND STUDENT AID

Increases in college costs can influence the decision whether to attend college or not. It is unclear, though, to what extent enrollment rates have been affected by increases in college tuition and other fees. One set of empirical findings suggests that a $100 increase in tuition not offset by additional student aid is likely to result in enrollment declines varying from negligible to almost 2 percentage points, depending among other things on the family income of the student and the type of institution attended. 12/ Increases in family income, however, can offset the adverse effect of higher college charges. As shown in Table 4, family incomes and (to a greater extent) student aid have generally kept pace with college fees.

As indicated in the lower panel of Table 4, costs at both public and private institutions rose by roughly 75 percent during the period 1967-1976. The consumer price index (a measure of the general price level) rose by somewhat less--70.5 percent. As a result, real college costs (that is, costs adjusted for inflation) rose by only 2.2 percent at public institutions and 3.7 percent at private institutions.

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earning $10,000 or $20,000 five or ten years ago. Because such families have a smaller "real income" today, their enrollment rate is likely to be lower. In order to focus on enrollment changes for families with the same real income, therefore, family incomes must be adjusted for inflation.

12/ Gregory A. Jackson and George B. Weathersby, "Individual Demand for Higher Education: A Review and Analysis of Recent Empirical Studies," Journal of Higher Education, vol. 46 (November/ December 1975), pp. 623-52.

TABLE 4. COLLEGE COSTS, FAMILY INCOME, STUDENT AID, AND THE GENERAL PRICE LEVEL

	Students costs a/		Family Income b/			Federal	
Year	Public	Private	Median	80th Percentile	Top 5 Percent	Appropriations Per Student c/	Consumer Price Index d/
(Amounts in Dollars)							
1967	1,063	2,205	7,933	12,270	19,025	87	100.0
1968	1,117	2,321	8,632	13,400	20,590	92	104.2
1969	1,024	2,531	9,433	14,751	22,703	82	109.8
1970	1,288	2,739	9,867	15,531	24,250	97	116.3
1971	1,357	2,917	10,285	16,218	25,325	107	121.3
1972	1,458	3,038	11,116	17,760	27,836	165	125.3
1973	1,517	3,164	12,836	19,253	30,015	160	133.1
1974	1,617	3,386	12,902	20,690 e/	32,199 e/	210	147.7
1975	1,748	3,667	13,719	22,037 e/	34,144 e/	248	161.2
1976	1,854	3,896	14,958	23,923 e/	37,047 e/	315	170.5
CUMULATIVE PERCENTAGE CHANGE FROM 1967							
1968	5.1	5.3	8.8	9.2	8.2	5.7	4.2
1969	13.3	14.9	18.9	20.3	19.3	-1.1	9.8
1970	27.2	24.2	24.4	26.6	27.5	11.5	16.3
1971	27.5	32.3	29.6	32.2	33.1	23.0	21.3
1972	37.2	37.8	40.1	44.7	46.3	89.7	25.3
1973	42.7	43.5	61.8	56.9	57.8	83.9	33.1
1974	52.1	53.6	62.6	68.6	69.2	141.4	47.7
1975	64.4	66.3	72.9	79.6	79.5	185.1	61.2
1876	74.2	76.7	88.6	95.0	94.7	262.1	70.5

a/ Includes charges for tuition fees, room, and board as found in U.S. Office of Education, National Center for Education Statistics, Projections of Education Statistics, table 41, p. 86. Costs for 1976 are NCES estimates (year 1967 equals academic year 1967-68, etc.)

b/ U.S. Bureau of the Census, Statistical Abstract of the U.S., 1976 and U.S. Bureau of the Census, Current Population Report, Series P-60, no. 105, table 10 (June 1977), p. 45, and table 13, p. 58, and no. 107 (September 1977), table 1, p. 6, and Table 4, p. 11.

c/ CBO estimates based on data from the following sources: U.S. Office of Education, Bureau of Higher Education, Factbook (1976); U.S. Office of Education, Office of Guaranteed Student Loans, Monthly Report (December 1976); and U.S. Office of Education, National Center for Education Statistics, Fall Enrollment in Higher Education (Selected Years).

d/ Economic Report of the President, January 1977, p. 241; and U.S. Department of Commerce, Survey of Current Business (November 1977), table 5-8.

e/ Not strictly comparable to earlier years due to revised procedure.

This increase in college costs, however, has been offset by a rise in family incomes, both in real and current dollar terms. From 1967 to 1976 median family income increased by 88.6 percent (10.6 percent in real terms), compared to the increase in college charges of roughly 75 percent. 13/ Because of the relatively faster growth in family income, student costs at public institutions decreased from 13.4 percent to 12.4 percent of median family income, and student costs at private institutions fell from 27.8 percent of median family income to 26.1 percent during the 1967-1976 period.

Families with incomes well above the median have experienced an even faster growth in income. For those in the 80th percentile (that is, just below the richest 20 percent) and those in the top 5 percent, the growth in current dollar income has been about 95 percent. As a result, college costs for those families with incomes of approximately $25,000 or more in 1976 comprised a smaller portion of income than for comparable families in 1967.

Growth in federal student aid has also helped to offset increases in college costs for middle-income families. During the period 1967-1976, appropriations for the major student aid programs grew 262 percent per full-time-student equivalent. While most of the appropriations were for programs primarily aiding lower-income students, the Guaranteed Student Loan Program (GSLP)--the primary source of assistance for middle-income families also grew substantially. From 1967 to 1976 appropriations for the GSLP (which primarily represent the subsidy element of the program) rose by 433 percent on a full-time-student equivalent basis while the volume of loans increased by 121 percent on a full-time-student euivalent basis. 14/ During

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13/ Using a different measure, U.S. per capita disposable income increased 101 percent during the 1967-1976 period. See Economic Report of the President, January 1977, Tables B-22 and B-26, and U.S. Department of Commerce Survey of Current Business (October 1977) Table S-2.

14/ CBO estimates based on data from the following sources: U.S. Office of Education, Bureau of Higher Education, Factbook (1976); U.S. Office of Education, Office of Guaranteed Student Loans, Monthly Report (December 1976); and U.S. Office of Education, National Center for Education Statistics, Fall Enrollment in Higher Education (Selected Years).

this period, students with adjusted family incomes of $15,000 or less (approximately $19,000 of adjusted gross income) were eligible for federal payment of interest charges on their loans while they were in school 15/ Thus, even for families not covered by the student aid programs focused on low- and moderate-income groups, federal support has risen faster than college costs.

These data on family income, college fees and student aid do not support the claim that the financial burden of college expenses has increased for middle- and upper middle-income families in general. Factors other than cost increases may be more important in explaining changes in enrollment patterns. Such factors may include reduced military manpower requirements, the declining rate of return from a college education, family preferences for consumer expenditures, and simply the decision of some to work rather than to study.

15/ In 1976, the ceiling for this subsidy was raised to $25,000 of adjusted family income (roughly $31,000 of adjusted gross income). The difference between these two income concepts is that adjusted family income reflects adjustments for personal tax exemptions and other deductions while adjusted gross income does not.

CHAPTER III. EDUCATION TAX ALLOWANCES

Adopting an education tax allowance is one way to provide financial relief to middle-income families for higher education costs if the Congress decides that additional federal funds should be spent for this purpose. An education tax allowance can take various forms, each of which would have different budgetary costs, distributional outcomes, and policy implications. The major forms of education tax allowances are discussed in this chapter. The legislative history of proposals for education tax allowances is then briefly reviewed to show how these various proposals have varied over time.

FORMS OF EDUCATION TAX ALLOWANCES

Education tax allowances can take three basic forms: a deduction against adjusted gross (or gross) income; a credit against tax liability; and a deferral (or postponement) of tax payments.

Tax Deductions

Tax deductions for education expenses provide benefits by reducing the taxable income base. Usually the designated base is adjusted gross income, although gross income may be chosen to extend the benefits to those who do not itemize. 1/ Because a deduction reduces the tax base to which progressive tax rates are applied, a deduction is worth more to high-income taxpayers than to those with low incomes. For example, a $100 deduction is worth $70 to someone with a top 70 percent marginal tax rate but only $30 to a taxpayer with a 30 percent marginal tax rate.

1/ Adjusted gross income is reached by subtracting from gross income all deductions which are not "itemized deductions" or personal exemptions. Taxable income is adjusted gross income minus the total of personal exemptions and either an amount now called the "zero bracket amount"--formerly called the standard deduction--or, if greater, itemized deductions.

Tax Credits

In contrast to a tax deduction which reduces the tax base, a tax credit reduces the taxpayer's liability directly and thus is worth more than a deduction of the same amount. For example, a $100 tax credit provides a tax benefit of $100 (unless the taxpayer does not have $100 of tax liability to be offset by the credit), 2/ while a $100 deduction provides a tax benefit ranging from $14 to $70. A tax credit provides the same tax reduction to those in high and low income brackets because, in contrast to a deduction, the tax saving does not depend on the taxpayer's marginal tax rate. 3/

Tax Deferrals

Tax deferrals for education expenses can be viewed as a form of higher education loan by which a taxpayer is granted relief in the form of postponement of part of his tax payments. The repayment of deferred taxes can be spread over several years and may begin after the student leaves school to provide greater relief while the student is attending school. Interest can be charged on the tax loan to reduce the cost to the Treasury, or the tax loan can be made interest-free to provide more of a subsidy.

Thus, if a deduction for education expenses were allowed as an offset to gross income for arriving at adjusted gross income, it would always filter through to reduce the tax base even for those who do not itemize. If, however, it were allowed only as an itemized deduction, it would not benefit those whose itemized deductions do not exceed the standard deduction or zero bracket amount.

2/ If a tax credit is made "refundable," those whose tax liability is less than the credit would receive a cash payment equal to the difference.

3/ If a tax credit is used to provide an explicit subsidy, however, and the amount of the credit itself is not subject to tax, the benefit of the subsidy will vary with the recipient's marginal tax rate. A $100 tax-free credit is worth $200 of taxable income to someone with a 50 percent tax rate rate but is worth only $125 to someone with a 20 percent tax

The value of a tax deferral depends on the length of the payback period and on the interest rate charged. Tax loans with long payback periods and low interest charges are worth more than those with short payback periods and high interet charges. The value also depends on the taxpayer's marginal tax rate and on what rate of return the taxpayer can earn on savings. Individuals who can earn high after-tax rates of return on their savings are apt to place a higher value on their tax loans than are those who would not forego as much interest income by spending their own funds for higher education.

FURTHER DESIGN CONSIDERATIONS OF EDUCATION TAX ALLOWANCES

Tax deductions, credits, and deferrals can be related in various ways to family income, education expenses, and other factors to achieve preferred distributional or budgetary objectives.

Relating Tax Allowances to Education Expenses

The design of an education tax allowance must specify the type and the amount of education expenses to be offset by the allowance. A major distinction is often made between expenses that are required for instruction and those associated with day-to-day living. For the most part, proponents of education tax allowances have restricted coverage of expenses to those associated with instruction--tuition, fees, books, supplies, and equipment. 4/ Items such as room and board generally have been excluded from coverage, perhaps because of budgetary cost considerations. This type of restriction avoids bias against those students who live at home for financial or other reasons. Most direct education subsidies, however, do not impose this restriction on qualified expenses. These programs avoid the bias noted above by "covering" at-home living costs.

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rate. Most federal direct grant subsidies to businesses are treated as taxable income, thereby avoiding this problem. See Stanley S. Surrey and others, Federal Income Taxation: Cases and Materials, 1 (Foundation Press, 1972), pp. 214-15.

4/ Some proposals would cover tuition charges only and would reduce qualified expenses by amounts received as scholarships, fellowships, and veterans' benefits.

The amount of qualified expense which is offset by an education tax allowance depends on the amount of the qualified expenses and the fraction of them which may be offset. An allowance can be designed to apply to expenses between, for example, $500 (a floor) and $2,000 (a ceiling). An allowance with a high floor on qualified expenses will direct relatively more aid to those attending high-priced private institutions. [5] A low ceiling on qualified expenses will reduce federal revenue losses.

Allowances that offset less than 100 percent of qualified expenses may reduce the extent to which institutions would be able to capture the subsidy (by raising tuitions or by reducing their student financial aid) without losing some students who would have to bear a portion of the cost increase. [6] The fraction of each dollar of qualified expenses that is offset by an allowance can be constant or can vary with the level of education expenses. For example, an allowance can offset 50 percent of all qualified expenses or may offset 75 percent of the first $500, 50 percent of the next $500, and 5 percent of expenses above $1,000.

Relating Tax Allowances to Income

A tax allowance can be related to the taxpayer's income in order to produce a desired distribution of benefits or to reduce total costs. For example, if considerations of budgetary costs and family need suggest that benefits should not be extended to high-income families, the allowance can be reduced by some percentage of income above a specified level. The allowance could be reduced, for example, by 2 cents for each dollar of adjusted gross income above $25,000. This would completely phase out a $400 tax credit at $45,000 of adjusted gross income. [7] If a faster phaseout is desired, the rate of reduction could increase with income. In the above example, a $400 credit would completely phase out at $40,000 if benefits were reduced by 2 cents for each dollar of income between $25,000 and $35,000 and by 4 cents for each dollar of income above $35,000.

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[5] For a discussion of this point, see Chapter IV.

[6] This point is discussed more fully in Chapter IV.

[7] If a family had two children in school at the same time, and if a $400 credit were allowed for each student, then the total ($800) credit would not be phased out completely until $65,000 of adjusted gross income was reached, unless the phase-down was calculated on a per-student basis.

At the low end of the income scale are many families with little or no taxable income or tax liability. These families would not benefit from education allowances that operate through a reduction of income taxes. If a tax credit is used, however, full benefits can be extended to those with little or no tax liability by making the credit "refundable"--that is, providing a direct cash payment to recipients if the credit exceeds their tax liability. 8/ In principle, the same outcome can be achieved when the mechanism is a tax deferral. In this case, the Treasury would make loans to low-income taxpayers even though no taxes were due. In the case of a deduction where benefits vary with marginal tax rates, cash benefit payments to nontaxpayers could be based on the lowest marginal tax rate; that is, the payment could be equal to 14 percent of qualified expenses.

If benefits are to be focused on middle-income families only, an appropriate allowance is one which incorporates a phaseout of benefits for taxpayers located at the upper end of the target income group. For example, the allowance could be reduced by 2 percent of adjusted gross income above $25,000. Also a nonrefundable allowance would seem appropriate when there is no intent to extend benefits to those with little or no tax liability. (Those in this group are generally eligible for direct federal aid.)

Relating Tax Allowances to the Number of Children Attending School

Another factor that can be introduced in the formulation of an education tax allowance is the number of students a family has attending school at the same time. Although almost all proposals that have been made would grant equal tax allowances for each child, the instances of families with two or more children attending school simultaneously are frequently cited

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8/ The earned income credit is an example of a refundable tax credit. See Internal Revenue Code of 1954, Section 43.

as the ones in which financial hardships are likely to be the greatest. Such families constitute roughly 15 percent of the families with 18- to 24-year-olds attending school full time and about 1 percent of all families. 9/ Concentrating aid on those families could reduce the costs of any program substantially and/or permit larger benefits for multiple-student families.

BRIEF LEGISLATIVE HISTORY OF EDUCATION TAX ALLOWANCES

A brief review of the history of proposals for education tax allowances shows how the different approaches have evolved. 10/ In the 1950s most of the proposals for education tax allowances offered a tax deduction against adjusted gross income for some portion of college expenses or, in some cases, provided an additional personal exemption for each student. In the 1960s a credit against tax liability became the popular form of tax allowance proposals, perhaps because of the recognition that deductions favor those with high tax rates over those with low tax rates. During the period from 1967 to 1977, six proposals for education tax credits passed the Senate, but none was ever approved by the House of Representatives.

Senator Abraham Ribicoff (D.-Conn.) was the chief sponsor of the first Senate-approved education tax credit measure. 11/ His 1967 amendment would have provided taxpayers a nonrefundable credit for college expenses equal to 75 percent of the first $200, 25 percent of the next $300, and 10 percent of expenses between $500 and $1,500. This credit was to be reduced by 1

9/ U.S. Bureau of the Census, Current Population Reports, Series P-20, no. 303 (December 1976), p. 38.

10/ A fuller discussion of the legislative history of education tax allowances is presented in John K. McNulty, "Tax Policy and Tuition Credit Legislation: Federal Income Tax Allowances for Personal Costs of Higher Eduation," California Law Review, vol. 61 (January 1973), pp. 4-14.

11/ Congressional Record, vol. 113, 90:1 (1967) pp. S9665-76 (debate on Ribicoff amendment) and p. S9688 (Ribicoff amendment passed).

percent of the taxpayer's adjusted gross income above $25,000. The Ribicoff amendment was attached to H.R. 6950, a bill restoring the investment tax credit. The amendment, however, was deleted from the bill in conference with the House.

In 1969 the Senate again passed a Ribicoff-sponsored tax credit amendment. 12/ The provisions of this measure were similar to those which passed the Senate in 1967 except that high-income tapayers would have benefited somewhat less. It offered a nonrefundable tax credit equal to 100 percent of the first $200 of expenses, 25 percent of the next $300, and 5 percent of expenses between $500 and $1,500. The credit was to be reduced by 2 percent of adjusted gross income above $15,000. In the conference with the House, the 1969 Ribicoff amendment was dropped from H.R. 13270, the bill which became the Tax Reform Act of 1969.

In 1971 the Senate passed its third education tax credit amendment. 13/ The measure was introduced by Senator Ernest F. Hollings (D.-S.C.) and was identical to the 1967 Ribicoff proposal except that the Hollings amendment was the first Senate-passed education tax credit measure that provided a refundable credit. The Hollings tax credit amendment, however, was dropped in conference on H.R. 10947, the Revenue Act of 1971.

In 1976 Senator William V. Roth, Jr. (R.-Del.) sponsored an education tax credit amendment that would have provided a nonrefundable tax credit of up to $250 per student when fully phased in. 14/ Unlike the Ribicoff and Hollings amendments, the Roth credit was not limited to a percentage of expenses (although the credit could not exceed tuition expenses) and was not phased out for high-income taxpayers.

Initially the Roth amendment was attached to H.R. 10612, the Tax Reform Act of 1976, but the conference committee con-

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12/ Congressional Record, vol. 115, 91:1 (1969), pp. S37289-305.

13/ Congressional Record, vol. 117, 92:1 (1971), pp. S18606-12.

14/ Tax Reform Act of 1976, S. Rept. 938. 94 Cong. 2nd sess. (1976), pp. 33-35.

sidered the revenue loss excessive and deleted the Roth amendment prior to final passage of the bill. Subsequently the Senate passed the Roth proposal as an amendment to H.R. 1386, a bill which would have allowed Smith College a tariff exemption on the purchase of a set of imported carillon bells. 15/ A unanimous consent request for a conference on the bill was objected to in the House, and the legislation died as the 94th Congress ended.

In 1977 the Senate again approved an education tax credit, which was offered by Senator Roth as an amendment to S. 9346, the Social Security Financing Amendments of 1977. 16/ The amendment would have provide a $250 tax credit for students. In contrast to Senator Roth's previous proposals, however, a floor amendment was added to make the credit refundable during its first year so that direct payments would be made to those whose tax liability was less than the credit. The Roth amendment was dropped from the social security bill in the House-Senate conference.

In 1977 the House Budget Committee's Task Force on Tax Expenditures, Government Organization, and Regulation held hearings on the subject of college tuition tax credits. 17/ Later in the year, during debate on the Second Concurrent Resolution on the Budget for Fiscal Year 1978, proponents of education tax allowances successfully managed to provide $175 million in the budget for possible passage of an education tax allowance. 18/

15/ Congressional Record, vol. 122, 94:2 (1976), pp. S16002-5.

16/ Congressional Record, daily ed., November 4, 1977, pp. S18792-802.

17/ See Report on Hearings before the Task Force on Tax Expenditures, Government Organization, and Regulation on College Tuition Tax Credits, House Committee on the Budget, 95 Cong. 1 sess. (Committee Print 95-12, November 1977).

18/ Congressional Record, daily ed., September 8, 1977, pp. H9028-30 and September 9, 1977, pp. S14510-16.

Also the Senate Finance Committee scheduled three days of hearings on the issue of education tax allowances in January 1978. 19/

19/ "Finance Subcommittee on Taxation and Debt Management Sets Hearings on Tuition Tax Relief Bills," Press Release, U.S. Senate Committee on Finance, Subcommittee on Taxation and Debt Management Generally, December 19, 1977.

CHAPTER IV CRITERIA FOR COMPARING ALTERNATIVE SUBSIDY PROGRAMS

If the Congress considers additional student aid for middle-income families, it may want to compare tax subsidies and nontax alternative forms of aid. This chapter discusses one set of criteria for making that comparison. In the next chapter these criteria are applied to various tax subsidies and other forms of student aid. 1/

COST

An important factor in evaluating any government subsidy program is its cost to the Treasury. More costly progams result in larger deficits or, alternatively, require additional tax revenue to be raised 2/ or require reductions to be made in other types of government spending. More costly programs also leave relatively less room to introduce other new spending programs or to enact tax reforms that cut taxes.

Cost estimates for alternative subsidy programs are given in the next chapter. It should be noted, however, that in general tax deferrals and other types of loans are, by their nature, less costly in the long run than are tax credits, deductions, or other types of grants of the same magnitude. 3/ Loans assist families

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1/ The criteria developed here do not exhaust all possibilities, but they do provide a basis for budgetary decision-making. Different readers may find some of the criteria more important than others and thus can place more weight on them when deciding among alternatives.

2/ If taxes are raised to finance an education subsidy program for middle-income families, those receiving the subsidy may find that they must pay higher taxes for a long time in exchange for relatively short-term relief.

3/ If the government's discount rate were equal to the interest rate charged on loans, the present value of the government's cost for loan programs would be zero (except for administrative and default costs).

by providing them with liquidity and allowing them to spread their financial burdens over an extended period of time. Grants, in contrast, provide relief with no payback requirement. 4/ Grant and loan programs having the same long-term budget cost will, therefore, differ in the amount of short-term relief provided. Loans can provide greater short-term relief than grants having the same long-term cost since loans are repaid.

The cost of a particular loan or grant program will depend on its characteristics. By changing subsidy amounts and eligibility restrictions,program costs can be set at whatever level desired. This point will be illustrated by considering cost-reducing variations in some of the programs described in Chapter V.

DISTRIBUTIONAL EFFICIENCY

A government subsidy program is efficient when it serves the intended purpose at minimum cost. Alternatively, an efficient subsidy is one which provides maximum desired benefits for a given cost. As indicated in Chapter II, the main objective of most proposals for education tax allowances apparently is to distribute additional educational aid to students from middle-income families. Thus, in measuring the distributional efficiency of alternative student aid programs in the next chapter, attention will be given to the portion of total benefits that accrues to middle-income students rather than to those in other income groups. Although the definition of "middle-income families" is not rigid, a review of recent Congressional proposals for education tax allowances suggests that the $10,000 to $25,000 income group is a reasonable approximation of the target group of many proposals.

This narrowly defined measure of efficiency ignores the question of whether additional federal funds should be spent for higher education subsidies and, if so, whether the benefits should be focused on middle-income families. It also does not measure the efficiency of these subsidies in meeting other possible education policy goals, such as increasing higher education opportunities for those who could not otherwise attend college.

4/ Under tax deferrals or other types of loan programs, the recipient is the one who bears the burden of repayment. Under tax credits, deductions, or other grant-like programs, the general public bears the burden of payments.

Nevertheless, it is an important criterion when one is simply concerned with deciding on an appropriate way to assist middle-income students.

The distributional efficiency of a student subsidy for education expenses is reduced to the extent that institutions capture the benefits either by raising fees or by altering their financial aid policies. When the subsidy is generally available to most students and can be used to offset costs on a dollar-for-dollar basis, institutions could raise student fees without losing many students since most students would not experience a net increase in college costs. Even when the subsidy is focused on a narrowly defined group of students or when less than a dollar of costs can be offset by each dollar of subsidy, institutions nevertheless could capture the subsidy without losing students by simultaneously raising fees and providing additional aid to selected students. Finally, in those cases in which students who are receiving financial aid from an institution also qualify for the subsidy, the institution could capture the subsidy by reducing its financial aid to those students.

Although these strategies would capture the student subsidy, it is not clear whether schools or state legislatures that often mandate fees at public institutions would fully exploit the opportunity. Certainly institutions have significant pressures to raise fees since the costs of supplying education services have increased substantially in recent years. In addition, with the last of the postwar baby boom generation now largely through college, this source of enrollment growth can no longer be counted upon to defray rising institutional costs. At the same time, those institutions faced with declining enrollments may want to obtain an advantage in the competition for students. They therefore might not raise student fees or reduce their financial aid to students even though other institutions were doing so in response to student subsidies.

FAIRNESS AND EQUITY

Issues of fairness and equity are also appropriate considerations when evaluating alternative education subsidy programs. People may differ in their judgment as to what constitutes a fair distribution of subsidy payments (whether or not the payments are distributed through the tax system). In general, however, most people probably believe that subsidies should be distributed either (a) equally among all recipients regardless of income or (b) progressively, with those with more income receiving smaller subsidies than those with less income.

For example, the distribution of welfare payments may be considered equitable because the benefits are based on financial need--those with less income but similar in other respects get larger benefit checks than those with more income. In contrast, G.I. Bill education benefits and the insulation tax credit proposed in President Carter's energy program provide benefits without regard to income. Although G.I. Bill education benefits vary depending on whether the veteran attends school on a full-time or part-time basis and on the number of dependents the veteran is supporting, those veterans in similar circumstances in these respects receive the same amount of monthly benefits regardless of their other income. The insulation tax credit would be varied in accordance with insulation costs to the taxpayer, not with respect to his income. 5/

When subsidies are distributed through the tax system, they may also be judged also on the basis of how they affect equity among taxpayers who are similarly situated (horizontal equity) and among taxpayers with different incomes (vertical equity). This issue, however, has not played an important role in shaping most education tax allowance proposals, and tax policy has not been used as a criterion for evaluating education tax subsidies in the next chapter. Appendix B provides a discussion of tax equity, including consideration of when tax subsides for education may be appropriate and how such subsidies may be evaluated in terms of tax equity.

MAINTAINING INSTITUTIONAL DIVERSITY

A relevant criterion for evaluating alternative student aid progrms is whether they are likely to have a neutral or nonneutral effect on the competitive balance between private (independent)

5/ Strictly speaking, the benefits of an insulation tax credit would be distributed equally regardless of income only if the credit is refundable. The Administration-proposed insulation tax credit is not refundable.

and public institutions. 6/ Although its effect is difficult to forecast, a subsidy could affect the proportion of students at public and private institutions in two ways.

First, a subsidy to students will lower the net price of higher education--assuming that institutions do not capture it through higher fees or other policies. 7/ Little can be said with confidence, though, about the net change in enrollments at public and private institutions resulting from a general lowering of the price of higher education.

Second, changes in the cost difference between public and private institutions brought about by the subsidy can be measured either in absolute or relative terms. If it costs $4,000 to attend a private college and $2,000 to attend a public institution, the absolute cost difference is $2,000; in relative terms, the private school costs twice as much. A $1,000 student subsidy would reduce the net price of attending these schools to $3,000 and $1,000, respectively. Although this subsidy would not change the absolute cost difference, it would raise the relative price of attending the private institution to three times the price of attending the public institution ($3,000/$1,000 = 3). This increase in the relative price of the private institution may induce some students to attend the public institution whose relative price has fallen.

6/ Congressman Barber Conable, Jr. (R.-N.Y.), for example, has expressed concern about the financial viability of private institutions. See Tuition Tax Credits, Hearings before the House Budget Committee's Task Force on Tax Expenditures, Government Organization and Regulation, 95:1 (1977), pp. 19-25. In their recent study, Bowen and Minter conclude that private institutions are holding their own relative to public institutions. See W. John Minter and Howard R Bowen, Private Higher Education: Third Annual Report on Financial and Educational Trends in the Private Sector of American Higher Education (Association of American Colleges), 1977, p. 61.

7/ When institutions raise tuitions or reduce student aid, they benefit at the expense of students. If institutions do not change their tuition or financial aid policies, students retain the subsidy and institutions may benefit from increased enrollments.

On the other hand, if the subsidy is a percentage of cost, the relative costs would remain the same as they were before the subsidy, but the absolute cost difference would change. If, in the above example, a subsidy were provided for 25 percent of education expenses, the net cost of attending the private school would fall to $3,000 while the net cost of the public school would decline to $1,500. The relative price difference is unchanged (the private school still costs twice as much as the public), but the absolute cost difference is reduced from $2,000 to $1,500. In general, subsidies which reduce the absolute cost difference (the "tuition gap") are likely to favor institutions with higher costs.

In short, flat amount subsidies increase the relative cost difference and tend to favor public institutions while percentage-of-cost subsidies reduce the absolute cost difference and tend to favor private institutions. The next chapter will analyze student subsidies in terms of their impact on the absolute and relative price difference of these institutions.

EASE OF ADMINISTRATION

A desirable feature of an education subsidy program is ease of administration. An easily administered program will generally involve fewer administrative costs and shorter delays in the distribution of benefits

A number of factors bear on the ease of administration. If eligibility must be certified before payment of benefits, an agency must make the determination. Generally, direct spending programs have required such agency certification. In contrast, tax programs give benefits to anyone who claims them; "certification" is achieved subsequently by auditing a small percentage of claims.

Programs that impose several restrictions on the eligibility of applicants and on the type of benefits claimed will require more diligent monitoring of the distribution of benefits. This monitoring will generally be more difficult to perform when the agency responsible for administering the program is not the agency most familiar with making the type of evaluations required by the restrictions of the program.

The tax system may be as efficient as other mechanisms for distributing subsidy payments when the subsidies are generally available to most taxpayers, when certification of eligibility is not required, and when unfamiliar or unusual evaluations by the Internal Revenue Service are not necessary. Under these conditions, administration of the program may be similar to such routine functions as the distribution of refund checks. When the subsidy does not have these features, however, the tax system loses its ability to operate as an easily administered distribution mechanism.

The alternative subsidies discussed in the next chapter will be evaluated in light of their potential for administrative complexity. Where possible, differences in administrative difficulties will be indicated.

BUDGET VISIBILITY AND CONTROLLABILITY

The final standard that will be used to compare alternative student aid subsidies is how visible and controllable a program is in the federal budgetary process. Programs that are more visible than others are more likely to be subject to annual review and thus have a greater potential for better control.

Despite a growing recognition and understanding of tax expenditures, they are not highly visible in the federal budget process, [8] and no procedure for regular review of tax subsidies has been developed. Unlike most direct spending programs, tax expenditures are entitlements, which generally do not require annual budget authorization and appropriations and thus are not subject to the discipline of the budgetary process imposed on most other programs.

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[8] The first tax expenditure budget was published in 1968. See U.S. Department of the Treasury, Annual Report of the Secretary of the Treasury for Fiscal Year 1968, pp. 326-40. The Congressional Budget Act of 1974, P.L. 93-344 (July 12, 1974) requires that the President's budget include a list of tax expenditures (Sec. 601). The most recent tax expenditure budget presented by the Administration appears in Special Analyses, Budget of the U.S. Government, Fiscal Year 1978, pp. 128-30, Table F-1. The House and Senate Budget Committees also present tax expenditure estimates. See, First Concurrent Resolution on the Budget for Fiscal Year 1978, H. Rept. 189, 95:1 (1977), pp. 109-20 and First Concurrent Resolution on the Budget for Fiscal Year 1978, S. Rept. 90, 95:1 (1977), pp. 19-25.

Advocates of student aid subsidies may not desire high budgetary visibility and controllability--these features might increase the likelihood that the subsidy will compete with other education programs for Congressional support and limited federal funds. This group therefore would probably prefer tax allowances (which also may be attractive because some people may believe that tax subsidies really do not involve the spending of federal funds). On the other hand, those who would not benefit from education tax allowances and those whose main concern is maintaining control over the budget may prefer direct grants or other subsidy forms that are relatively more visible and controllable than tax allowances.

CHAPTER V. ALTERNATIVE PROGRAMS OF AID FOR MIDDLE-INCOME STUDENTS

This chapter analyzes five alternative mechanisms for distributing additional federal aid to students or their families, especially those in middle-income classes. 1/ These mechanisms include tax and nontax programs in the form of both grants and loans. (A tabular overview of this analysis is provided in the Summary.)

TAX CREDIT OR CREDIT/DEDUCTION OPTIONS

Several different types of benefit formulas and eligibility criteria can be combined to produce alternative tax credit and credit/deduction plans for the expenses of higher education. One option would be simply to provide a nonrefundable $250 tax credit for every student, applicable to expenses for tuition, fees, books, supplies, and equipment. 2/ Another possibility would be to grant an option to choose between a nonrefundable $200 tax credit or a $1,000 deduction. Each of these two plans could be modified to reduce revenue losses and/or focus benefits more precisely on middle-income families. The specific modifications considered here are (1) reducing the size of each tax credit by 1 percent and the size of each deduction by 5 percent of adjusted gross income above $25,000 and (2) limiting the size of

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1/ As indicated earlier, the analysis does not address the fundamental issues of whether additional federal funds should be spent for higher education and, if so, whether education policy is best served by focusing the aid on students in the middle-income group.

2/ For this and other tax options considered in this chapter, it is assumed that the subsidy will be prorated for part-time students. Eligible students are defined to include taxpayers, spouses, or dependents who maintain at least half of a full-time course load at postsecondary institutions of higher education or vocational schools.

the allowance for one-student families to one-half the amount that can be taken for second and subsequent students in a family with two or more students enrolled in school simultaneously.

Cost and Distributional Efficiency

Table 5 shows that slightly less than half (49.4 percent) of the tax savings from a nonrefundable $250 credit costing about $1.7 billion would go to taxpayers with incomes between $10,000 and $25,000, and 37.3 percent would go to families whose incomes exceed $25,000. Table 6 shows that, under a nonrefundable $200-tax-credit/$1,000-deduction option costing about $1.9 billion, middle-income families would receive a smaller proportion (41.7 percent) than under the $250 credit plan, but those having at least $25,000 of income would receive more--48.2 percent. This shift in the proportion of benefits from low- and middle-income families to upper-income families occurs because tax deductions are worth more than tax credits to those in higher income tax brackets and are worth less than credits to those in lower tax rate brackets.

If a general $250-per-student tax credit were reduced by 1 percent of the taxpayer's adjusted gross income above $25,000, the cost of the program would be lowered to $1.4 billion. Middle-income families would get 59.6 percent. No taxpayer earning more than $50,000 would benefit. 3/

The cost of a nonrefundable $200-tax-credit/$1,000-deduction program of the same sort but with the credit phased down by 1 percent and the deduction phased down by 5 percent for each dollar of adjusted gross income above $25,000 would be $1.3 billion. Those earning between $10,000 and $25,000 would get 58.4 percent of the tax savings. Families earning more than $45,000 would not benefit from this option.

Instead of phasing down the allowances for incomes above $25,000, the size of the credit or deduction could be reduced

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3/ A family earning more than $50,000 would benefit from a credit if the credit were not phased out on a per-student basis and if the family had more than one member in school at the same time. See Chapter III, footnote 7.

TABLE 5. SIZE AND DISTRIBUTION OF BENEFITS UNDER A NONREFUNDABLE TAX CREDIT OF $250 COSTING APPROXIMATELY $1.7 BILLION IN FISCAL YEAR 1978 a/

	Adjusted Gross Income Class (Dollars in Thousands)			
	0-10	10-25	25+	All Groups
Aggregate Benefits (Dollars in Millions)	223	831	628	1,682
Percentage of Total Benefits	13.3	49.4	37.3	100
Average Benefit Per Eligible Student (Dollars) b/	143	160	213	174

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a/ CBO estimate based on data from the U.S. Bureau of the Census; data from the U.S. Office of Education, National Center for Education Statistics; data supplied by Joseph Froomkin, Inc.; and tax data published by the U.S. Department of the Treasury, Internal Revenue Service.

b/ The average benefit for students with family incomes above $25,000 is greater than that for students in the $10,000-$25,000 income class because those in the higher income group are more likely to attend school on a full-time basis. The average benefit for full-time students in both of these income classes would be $250. Many full-time students with family incomes below $10,000 would not get the full credit because the family's tax liability is less than $250.

TABLE 6. SIZE AND DISTRIBUTION OF BENEFITS UNDER A $200-CREDIT/ $1,000-DEDUCTION OPTION COSTING APPROXIMATELY $1.9 BILLION BILLION IN FISCAL YEAR 1978 a/

	Adjusted Gross Income Class (Dollars in Thousands)			
	0-10	10-25	25+	All Groups
Aggregate Benefits (Dollars in Millions)	188	777	899	1,864
Percentage of Total Benefits	10.1	41.7	48.2	100
Average Benefit Per Eligible Student (Dollars)	120	150	305	192

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a/ CBO estimate based on data from the U.S. Bureau of the Census; data from the U.S. Office of Education, National Center for Education Statistics; data supplied by Joseph Froomkin, Inc.; and tax data published by the U.S. Department of the Treasury, Internal Revenue Service.

by half for the first student a family has enrolled in school, with the higher level retained for second and subsequent students enrolled in school at the same time. This would reduce the total cost of the plan substantially since only about one family out of seven with students in school has more than one student in school at the same time.[4] (To take care of families who have students attending school back-to-back rather than simultaneously, eligibility for the higher subsequent-student benefit might be extended for a period of time after the first student graduates.)

This restriction on benefits would lower the total cost of the tax credit plan to $1.1 billion. It would also change the distribution of benefits somewhat. Families earning between $10,000 and $25,000 would get a slightly smaller share (47.2 percent) than under the unrestricted credit plan, and those earning more than $25,000 would get a slightly larger share (40.8 percent). This change in distribution occurs because high-income families are more likely to have more than one student in school at the same time.[5]

If the tax credit/deduction option were modified in the same way, the total cost of the plan would be lowered to $1.2 billion, with 39.1 percent going to middle-income families and 52.0 percent to upper-income families.

Fairness and Equity

The tax credit option is more appropriate than the credit/deduction option for those who believe that subsidies should not be larger for those with higher incomes. 6/ If, because of income distribution considerations, one prefers a more progressive distribution of subsidies than that provided by a simple tax credit, then the tax credit that is phased down for families with adjusted gross incomes above $25,000 is more appropriate than the one which is not. Reducing the size of the allowance for a family's first student produces a less progressive distribution of benefits than that realized under the simple tax credit since those in higher income groups are more likely to have more than one student in school at the same time.

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[4] U.S. Bureau of the Census, *Survey of Income and Education* (Spring 1976).

[5] Ibid. If this form of tax allowance were adopted, low-income families who currently cannot afford to send more than one student to school at the same time might become able to do so. To the extent that such behavior is induced by the allowance, low-income families would get somewhat more than 12.0 percent of the benefits.

Maintaining Institutional Diversity

The tax credit and credit/deduction options presented above may have an adverse impact on the competitive position of the more expensive private schools because they do not reduce the absolute cost difference of attending these schools but do raise the relative price of attending private institutions (see Chapter IV). The reason is that they provide fixed dollar benefits rather than benefits determined as a percentage of qualified expenses. 7/

The modified plans that reduce the size of the tax allowance for the family's first student or phase down the allowance for

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6/ As indicated in footnote b/ of Table 5, the $250 tax credit plan would provide the same average benefit ($250) for full-time students in both the middle- and upper-income groups. Many full-time students with family incomes below $10,000, however, would not get the full $250 credit because the family's tax liability is too low and the credit is not refundable.

7/ As indicated in Chapter IV, an example of an allowance that would reduce the absolute cost difference between high- and low-cost schools but would not change the relative price difference is a tax credit (or credit/deduction option) equal to 25 percent of qualified expenses. An allowance which would generally reduce the relative cost of attending a high-cost institution is one which applies only to expenses above some level, say $500.

those earning more than $25,000 would have less of an impact on the competitive balance between public and private schools simply because, with many students eligible only for reduced allowances, fewer students would experience as much change in relative prices.

Ease of Administration

The ease of administering an education tax credit or credit/deduction program depends mainly on the extent to which restrictions are imposed. Therefore, the relatively unrestricted tax credit and credit/deduction plans presented above rank somewhat higher in terms of administrative ease than do the modified plans that depend on the family's income or on the number of students a family has in school. The difference, however, is probably not great. The effective monitoring of any of these tax allowances, of course, would require the IRS to verify that students for whom allowances have been claimed are in fact attending school on at least a half-time basis.

Budget Visibility and Controllability

Even with the annual reporting of tax expenditures, an education tax credit or credit/deduction plan would rank low in terms of budgetary visibility and controllability. The tax expenditure concept is still relatively new, and tax subsidies in general tend not to receive as much review and scrutiny as direct subsidies. More importantly, however, an education tax allowance is an entitlement program that provides benefits for all students who qualify. Once subsidy amounts and eligibility requirements have been established, program costs cannot be controlled because they are not subject to fixed appropriation ceilings.

BASIC EDUCATIONAL OPPORTUNITY GRANTS

Another way to provide more student aid for the middle-income group would be to expand the Basic Educational Opportunity Grants (BEOG) program that is currently designed to assist low- and moderate-income students. 8/ One option would be to increase the

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8/ Other needs-tested student assistance--such as Supplemental Educational Opportunity Grants and the Work/Study Program--also size of the maximum award to $2,100, 9/ and to reduce from 30 percent to 20 percent the share of "discretionary income" above $5,000 that a family is expected to contribute toward the financing of higher education costs. 10/ Although these program changes would increase the amount of aid going to those already receiving BEOGs, the changes would also extend benefits to 490,000 middle-income students who now do not qualify because their family income is too high.

Cost and Distributional Efficiency

Table 7 shows that the above-described changes in the BEOG program would cost $812 million. Approximately 72 percent of these additional funds would go to families earning between $10,000 and $25,000, while families earning more than $25,000 would receive an insignificant share. This option ranks higher, in terms of distributional efficiency, than the tax allowances discussed earlier since middle-income students would get a larger share of total additional benefits. 11/ It should be noted, however, that fewer students (including those from middle-income families) would benefit from these changes in the BEOG program than from the

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could be changed to include a greater number of middle-income students. A broad approach of this sort might give a more complete coverage to needy middle-income students.

9/ The Education Amendments of 1976 raised the ceiling on the maximum award from $1,400 to $1,800. Fiscal year 1978 appropriations for the BEOG program, however, will effectively limit the maximum award to $1,600 for this year.

10/ Discretionary income is basically adjusted gross income plus transfer payments minus both federal taxes and the amount of income needed to sustain a family at the poverty level.

11/ A change in the BEOG program that lowers to 20 percent the expected contribution rate on discretionary income but does not raise the BEOG ceiling would cost $155 million. Approximately 87 percent of these additional funds would go to middle-income students. In contrast, a change that raises the BEOG ceiling from $1,600 to $2,100 but that does not lower the contribution rate would cost $698 million, of which only 65 percent would go to middle-income students.

TABLE 7. DISTRIBUTION OF ADDITIONAL BENEFITS FROM RAISING THE MAXIMUM BEOG AWARD TO $2,100 AND LOWERING THE FAMILY CONTRIBUTION RATE FROM 30 TO 20 PERCENT ON DISCRETIONARY INCOME ABOVE $5,000 a/

	Adjusted Gross Income Class (Dollars in Thousands)			
	0-10	10-25	25+	All Groups
Distribution of Additional Benefits (Dollars in Millions)	224	588	--	812
Percentage of Additional Benefits	27.6	72.4	—	100
Average Additional Benefit Per Recipient (Dollars) b/	163	383	—	279

a/ CBO estimates based on simulations with the U.S. Office of Education's BEOGs estimation model, updated December 1977.

b/ To estimate how the incremental $812 million would be distributed among recipients on average, it was assumed that the average award for new beneficiaries would be the same as the increase in award size for those already in the program.

tax allowances discussed above since the eligibility limitations in the BEOG program are more restrictive. 12/ The tax allowances would provide benefits to all students attending college on at least a half-time basis. In contrast, the BEOG program restricts benefits to students who can demonstrate financial need on the basis of college costs and expected family contribution.

The average additional award associated with these changes in the BEOG program would be larger for those in the middle-income class than for those with low family incomes, although low-income students would continue to receive larger overall awards than those going to middle-income students. 13/ Two reasons account for this outcome. First, very few students with family income below $10,000 will benefit from the reduced contribution rate on discretionary income above $5,000 since the discretionary income of most families in this group is less than $5,000. Second, many low-income students now eligible for BEOGs attend relatively low-cost schools and would not benefit fully from an increase in the maximum award from $1,600 to $2,100 because of a program restriction that limits the award to one-half the cost of college attendance.

Middle-income students would benefit from both program changes to a much greater extent. More of these students would benefit fully from the maximum award increase to $2,100 because their attendance at high-cost institutions makes the half-cost of attendance limitation on BEOG awards less likely to be binding. Middle-income students also would benefit more than low-income students from the reduction from 30 to 20 percent in the fraction of discretionary income above $5,000 that a family is expected to contribute.

Fairness and Equity

These changes in the maximum BEOG award and the expected family contribution would not result in a uniform distribution of

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12/ Eligibility requirements of the BEOG program are outlined in Appendix A.

13/ Under a BEOG program with a $2,100 maximum award and a 20 percent family contribution rate on income above $5,000, the average awards would be $1,135 for those with incomes below additional funds among recipients. Students in the middle-income group would get relatively larger additional average benefits than those in the low-income group. In this respect, the distribution of benefits resembles that resulting from the tax allowances discussed earlier. 14/ If a somewhat more equal distribution of subsidies than that resulting from these BEOG program changes is considered more equitable, the share of discretionary income above $5,000 that a family is expected to contribute could be left unchanged at 30 percent when the maximum BEOG award is raised to $2,100.

Maintaining Institutional Diversity

For all students whose BEOG awards would not be limited by the half-cost-of-attendance restriction, the program changes would provide the same amount of funds regardless of the type of school attended and thus would raise the relative cost of attending a high-cost institution, although the absolute cost difference would remain unchanged. For students whose awards are restricted by the half-cost-of-attendance limitation, the program changes generally would lower the absolute cost difference of attending a high-priced private institution. In this case, the relative price of attending a private institution could go up or down, depending on how much the half-cost-of-attendance limitation restricted the size of grants for those attending public institutions.

Ease of Administration

An expansion of the BEOG program of the sort described here could be accommodated by the existing system without substantially changing the nature of program operations. This mode of distributing more student aid to middle-income families necessarily would share the administrative problems associated with the current BEOG

$10,000 and $784 for those with incomes between $10,000 and $25,000.

14/ As indicated in footnote b/ of Table 5, full-time students in the middle-income group would receive an average benefit of $250 under the tax credit plan. Many full-time students with family incomes below $10,000, however, would not qualify for the full credit because the family's tax liability is less than $250 and the tax credit is not refundable.

program, including the detection of fraud and other abuses. 15/ It would involve a greater administrative burden than the tax allowances discussed above since more benefit claims are verified under the BEOG program than under the tax system, where only a very small percentage of returns is audited.

Budget Visibility and Controllability

Changes in the BEOG program would rank high in terms of visibility and controllability. Since the BEOG program is a direct spending program, its authorizations, appropriations, and outlays are reviewed annually in the course of the budget process. According to the BEOG legislation, the annual cost of the program can be kept within appropriation limits by reducing the average award size. In practice, however, when total grants have exceeded appropriations, the policy generally adopted has been to request supplemental appropriations rather than to reduce subsidy amounts. This course of action has resulted in less hardship for students and institution administrators.

STUDENT LOANS

If the Congress decides that loans rather than grants should be used to provide more assistance to students from middle-income

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15/ The extent of fraud and other abuses in the BEOG program is not known. A study conducted for the Office of Education concludes that "the degree of income misreporting [fraud] is small and the impact of misreporting is minor." Applied Management Sciences for the U.S. Office of Education, Validation of Student and Parent Report Data on the Basic Grant Application Form, vol. 6 (November 23, 1976), p. 6,. Other abuses in the program include students' enrolling in college, receiving basic grants, then dropping out of college. See Karen J. Winkler,"How Much Fraud in Basic Grants for Students," Chronicle of Higher Education (April 4, 1977), p. 11. Program administrators indicate that when fraud and abuses have been discovered in the BEOG program, steps have been taken to curb them (telephone conversation with Peter K. Voigt, former Director of the BEOG program, January 4, 1978).

families, an expansion of the current federal loan programs might be considered. Direct federal loans are now made through the National Direct Student Loan Program (NDSLP); most nonfederal loans are guaranteed under the Guaranteed Student Loan Program (GSLP), which was established in 1965 specifically to aid middle-income families who face liquidity problems. If it is considered desirable to minimize the structural changes in the existing loan programs, then the GSLP is probably better suited to direct additional assistance to middle-income and upper middle-income students. Because of its needs test, the NDSLP focuses relatively more assistance on low-income families than does the GSLP, which has no strict needs test. 16/

The Education Amendments of 1976 made more middle-income and upper middle-income families eligible for GSLP benefits by raising from $15,000 to $25,000 the ceiling on adjusted family incomes that qualify a student for federal payment of interest charges while the student is in school. 17/ Also the total amount of loans a student can borrow for undergraduate training was increased from $7,500 to $10,000, while the total available for undergraduate and graduate training combined was raised from $10,000 to $15,000. 18/ These changes will not only provide an "in-school" interest subsidy to more middle-income families and allow each student to borrow more but are also expected to result in a greater number of loans made to this group.

Theoretically, any student can obtain a 7 percent loan under the GSLP even if the student's family income makes the student ineligible for the in-school interest subsidy. In practice, however, only about 4 percent of all loans have gone to such

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16/ Under the GSLP, however, an applicant is required to verify that the funds will be used to finance education expenses.

17/ Justification of Appropriations Estimates for Committee on Appropriations, Fiscal Year 1978, revised vol. 2, p. 185. An adjusted family income of $25,000 corresponds to an adjusted gross income of approximately $31,000. The higher-income ceiling will extend eligibility for GSLP benefits to about 85 percent of all students (CBO estimate).

18/ Justification of Appropriations Estimates, p. 185.

students. 19/ The apparent reason is that banks refrain from making many loans to students who do not qualify for the in-school interest subsidy because it is more costly and difficult to obtain interest payments from many individual students while they are in school than it is to collect interest payments from one source--the government. If this is the case, extending the in-school interest subsidy to those with family incomes ranging from $15,000 to $25,000 should result in more student loans going to these families.

The benefits to middle-income and upper middle-income families resulting from the 1976 amendments probably could be enhanced most by encouraging banks to increase the amount of guaranteed student loans (GSLs) in their loan portfolios. 20/ A scarcity of GSLs is now a major shortcoming of the GSLP. More GSLs might be provided by lenders if their net rate of return on GSLs were increased.

In addition to the 7 percent rate now charged on GSLs, lenders receive a "special allowance" from the government when market interest rates are high. The special allowance (2 7/8 percent for the fourth quarter of 1977) 21/ is related to the rate on three-month Treasury securities and can be as large as 5 percent. The net rate of return on GSLs, however, is reduced by the high cost of complying with administrative procedures.

19/ U.S. Office of Education, Analysis of Student Borrower and Loan Characteristics: Guaranteed Student Loan Programs, Draft (January 1974).

20/ Somewhat higher benefits for middle-income students could also be realized through federal payment of some of the interest costs now borne by students and by further raising (or eliminating) the limit on the amount of funds that a student can borrow. For those who believe that student aid should be extended to families with adjusted gross incomes above $31,000, raising the ceiling on the amount of family income that qualifies a student for the in-school interest subsidy might be an attractive alternative.

21/ Source: U.S. Office of Education.

The net rate of return to banks could be improved by increasing the rate charged to students (although this would reduce the student's subsidy), by raising the special allowance, or by reducing the bank's administrative costs. Increases in the basic rate and the special allowance have been considered by the Congress. The Office of Education has implemented some procedures to reduce administrative costs, such as centralization and automation of recordkeeping and report filing. Greater efforts in these areas might induce banks to provide more student loans.

Cost and Distributional Efficiency

Fiscal year 1977 federal outlays for interest and default payments on GSLs amounted to $447.6 million. 22/ The volume of loans made in fiscal year 1977 was $1.47 billion. Since data on the effect of the 1976 amendments on the volume and distribution of GSLs among income groups is not available, quantitative statements cannot be made about the benefits accruing to middle-income families. Banks have wide discretion in determining the volume of loans they will provide and to whom the loans will be made. Quantitative estimates of their response (and that of student borrowers) would necessarily involve arbitrary assumptions.

As noted above, though, it seems reasonable to expect that middle-income and upper middle-income students will receive a substantially larger portion of GSLs than before. This outcome would result from the extension of subsidy eligibility to these families and from a tendency for banks to favor students in the middle-income group if such students are thought to have a lower default rate than those in low-income groups. The effect of these two factors on the amount of aid going to middle-income families would be magnified if the willingness of lenders to provide a larger volume of GSLs were increased.

Fairness and Equity

Since all qualified students are potentially eligible for loans of the same size and at the same interest rate, this GSLP

22/ Of the total, $305 million was spent for interest payments, and $142.6 million was spent on default payments. Source:

option would be considered equitable by those who maintain that education subsidies should be distributed equally among all recipients. For those who believe that a progressive distribution of benefits is more equitable, a loan program which charges lower interest rates to those with less income might be preferred. (The NDSLP currently extends loans to low- and moderate-income students at an interest rate of 3 percent.)

Maintaining Institutional Diversity

Guaranteed student loans make available the same maximum amount of funds to students attending private and public institutions although the amount borrowed will generally depend on the amount of expenses incurred. Students who do borrow the maximum amount in either case will not experience an absolute dollar change in the current cost difference between high- and low-priced schools, but the relative out-of-pocket cost of attending a more expensive private school will generally rise. If students could borrow as much as they want rather than the fixed dollar limit now allowed, this option would not necessarily affect relative prices since students could borrow enough to cover the same percentage of costs at either type of institution. In this case, the absolute difference in current costs would be reduced--a result that would probably favor private institutions. Of course, except for interest payments, GSLs do not--and would not even if the program were expanded-- alter the long-run cost difference between public and private institutions.

Ease of Administration

Changes in the GSLP that provide more benefits to middle-income and upper middle-income students are not likely to increase the administrative problems of the program, foremost of which is a high default rate on GSLs (12.5 percent in fiscal year 1977). 23/ In fact, if these students prove to have lower default rates, administering the GSLP could become easier.

U.S. Office of Education. Data on administrative costs were not available when this report was completed.

23/ This 12.5 percent default rate on GSLs excludes defaults resulting from deaths and disablements. Source: U.S. Office of Education.

Budget Visibility and Controllability

Guaranteed student loans are moderately visible in the budgetary process, but are not very controllable. Unlike tax expenditures, outlays for the GSLP (interest and default payments and administrative costs) 24/ are reported under the education function in the budget and are subject to the review and scrutiny given to other direct outlays. The federal government, however, is obligated to make interest and default payments for whatever volume of GSLs that lenders supply. In this respect, they are like education tax allowances. But since federal outlays for GSLs are only a fraction of the liquidity benefits provided by loans, each dollar of federal funds supports more than a dollar of student benefits. In contrast, each dollar of tax allowances and other types of grants costs the government more than a dollar when administrative costs are taken into account.

LOANS TO PARENTS

If the 1976 changes in the GSLP and increased incentives for banks to expand their volume of guaranteed student loans fail to promote enough student loans to satisfy the liquidity needs of middle-income families, another course of action might be to establish a loan program for parents. A loans-to-parents program would assist those families now unable to obtain a GSL. Such families may find it difficult to get GSLs because their incomes are too high for them to qualify for the federal in-school interest subsidy. Another reason is that banks may be reluctant to lend to students whose default rates are high and who are often difficult to locate when repayment is overdue. Loans to parents would also help families who need more liquidity than the annual maximum of $2,500 per student now offered under the GSLP.

A loans-to-parents program might offer loans of as much as $5,000 per year for each student the family has enrolled in a postsecondary institution if education expenses required this much borrowing. The repayment period could be set somewhere between 5 and 10 years, with monthly payments of interest and principal beginning immediately after the loan is made. Alternatively,

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24/ The Budget of the United States Government, Fiscal Year 1978, app., pt. I, p. 341.

if more relief while the student is in school is desired, repayment of principal could be postponed until some time after the student finishes college. An interest rate of between 8 percent and 10 percent could be charged, perhaps varying with the length of the repayment period. If no collateral were required, a federal guarantee would undoubtedly be needed to induce most private lenders to participate, and during periods of high interest rates, a supplemental federal interest payment to lenders might be necessary to insure an adequate supply of capital. Generally, though, private lenders might be more attracted to a guaranteed loans-to-parents program than to the current GSLP since loans to parents are likely to incur fewer administrative costs and a lower default rate than loans to students.

Although many middle-income and upper middle-income families have liquidity problems that make it difficult for them to pay large, lump-sum education costs, 25/ these families generally have sufficient incomes to make monthly payments on long-term education loans. In contrast, recently graduated students are less likely to have sufficient income to repay their GSLs.

Currently 17 colleges and universities participate in a coordinated system of "Parent Loan Plans." 26/ Under this program, nonguaranteed, nonsecured loans expected to average $4,000 a year are provided by the institutions to families with incomes generally between $20,000 and $60,000. Interest rate charges range between 8 and 8 1/4 percent. The repayment period is generally between six and eight years, with repayment of both interest and principal made in monthly installments beginning soon after the loan is made.

Cost and Distributional Efficiency

The federal cost of a loans-to-parents program would depend mainly on the size of supplemental interest payments to banks (if

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25/ The largest asset for most families is their house, and many homeowners are reluctant to apply for second mortgages.

26/ See Karen J. Winkler, "Private Colleges Weigh Loans To Parents Earning $20,000 to $60,000," Chronicle of Higher Education, March 21, 1977, p. 3. The Office of Education staff also provided information about this program.

the program's success required such payments) and on the number of defaults. If the interest rate charged to parents were significantly higher than the 7 percent rate now charged on GSLs, smaller supplemental interest payments would be needed during periods of very high interest rates. Federal interest payments for each dollar of loans to parents would also be less than under the current GSLP since under the program outlined above the government would not be assuming responsibility for the payment of interest charges while the student is in school.

The federal cost per dollar of loans to parents also might be expected to be lower than the $.24 per dollar of loans disbursed under the GSLP thus far, 27/ since default rates would probably be lower when parents rather than students are liable for loans.

The share of loans that would go to middle-income families under a loans-to-parents program is difficult to estimate. As in the case of the GSLP, the outcome would depend on which families decide to apply for the loans and on the decisions by banks regarding the amount of loans to make and to whom they will go. As indicated above, though, a loans-to-parents program could prove successful in satisfying the liquidity needs of those middle-income families who now qualify for GSLs but who cannot obtain these loans because of reluctance of banks to lend to students.

Fairness and Equity

Since all families in the target group would be eligible for the same amount of loan, a guaranteed loans-to-parents option would be considered fair by those who believe that education subsidies should be distributed equally among recipients. Those who maintain that subsidies should be distributed progressively might prefer a loans-to-parents program that reduced the amount of guaranteed loan that those with relatively high incomes could get.

Maintaining Institutional Diversity

As in the case of the GSLP, the effect of a loans-to-parents program on the cost differences between public and private institutions depends on the amount that a family borrows. A program

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27/ Source: U.S. Office of Education.

that offers annual per-student loans of as much as $5,000 would provide families with enough liquidity to completely finance costs at either type of institution in all but a few cases. If parents borrowed enough to cover the same percentage of costs at public and private institutions, the dollar difference in current costs would be reduced--a result that would probably favor private institutions. Of course, except for interest payments, a loans-to-parents program would not alter the long-run cost difference between public and private institutions.

Ease of Administration

A guaranteed loans-to-parents program is likely to be easier to administer than the GSLP. The default rate on loans to parents is likely to be less than the default rate on GSLs, and in the case of delinquent payments, parents are likely to be more easily located and contacted than are recently graduated students.

Budget Visibility and Controllability

A guaranteed loans-to-parents program would have about the same ranking as the GSLP in terms of budget visibility and controllability. Like the GSLP, federal interest payments, default payments, and administrative costs would be reported under the education function in the budget. The federal outlays for the program, therefore, would be more visible than the federal revenue losses resulting from a tax expenditure program. Like the GSLP, however, a loans-to-parents program would be an entitlement and thus less controllable than direct spending programs that can be subjected to a firm ceiling through the appropriations process.

TAX DEFERRALS FOR EDUCATION EXPENSES

Another way to provide additional aid to middle-income students and their families is to allow taxpayers to defer (or postpone) a portion of their tax payments to finance education expenses, including room and board as well as tuition costs. This type of tax allowance is essentially a loan which is made available through the tax system.

An example of one possible tax deferral plan is to allow the taxpayer to postpone the payment of as much as $1,500 of taxes per student each year while the student is in school, with a lifetime maximum of perhaps $10,000. Repayments could be made in 10 equal installments, beginning a full year after graduation, and an interest rate of 7 percent could be charged. (This interest rate is the same as that charged to students under the GSLP.)

Cost and Distributional Efficiency

Table 8 shows that the start-up costs of this tax deferral program would be about $8.8 billion--substantially greater than that of the other options discussed above. 28/ The net annual cost, however, would become minimal after 10 or 15 years, when the program was in operation long enough for repayments to be in full swing. Thereafter, the Treasury's outflow would exceed its inflow (adjusted for interest payments) only to the extent of growth in the number of borrowers and delinquent payments. Since the 7 percent interest charge approximates the rate on long-term Treasury securities, the Treasury would have little or no net interest cost unless its borrowing costs rise.

Table 8 also shows the distribution of tax deferrals resulting from this plan. Approximately 53 percent of the deferred taxes would benefit families earning between $10,000 and $25,000. This program, thus, distributes funds to middle-income families somewhat more efficiently than do the unmodified tax credit or credit/deduction options but less efficiently than the expanded BEOG program. Like the other loan programs, though, the much larger average benefit (in the form of liquidity) provides more meaningful relief than that realized under these other programs.

Fairness and Equity

If one views tax deferrals simply as a means of distributing a subsidy, then tax deferrals may be considered equitable to the extent that they allow some people to obtain loans that otherwise might not be available to them. Large tax deferrals, however, provide larger loans to high-income taxpayers who have a sufficient tax liability to take full advantage of the deferral. Thus those who believe that subsidized loans for education purposes

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28/ If it is decided that start-up costs should be lower, the size of the deferral could be reduced.

TABLE 8. DISTRIBUTION OF BENEFITS OF A TAX DEFERRAL PLAN PERMITTING POSTPONEMENT OF $1,500 OF TAXES ANNUALLY PER STUDENT a/

	Adjusted Gross Income Class (Dollars in Thousands)			
	0-10	10-25	25+	All Groups
Aggregate Benefits (Dollars in Millions)	417	4,648	3,767	8,832
Percentage of Total Benefits	4.7	52.6	42.7	100
Average Tax Deferral Per Eligible Student (Dollars)	286	897	1,278	911

a/ CBO estimate based on data from the U.S. Bureau of the Census; data from the U.S. Office of Education, National Center for Education Statistics; data supplied by Joseph Froomkin, Inc.; and tax data published by the U.S. Department of the Treasury, Internal Revenue Service.

should be distributed equally among all recipients might consider tax deferrals less equitable than subsidized loans that do not depend on the individual's tax liability.

Maintaining Institutional Diversity

This tax deferral plan would provide the same amount of liquidity to students attending private and public institutions whose charges for tuition, room, and board total at least $1,500; in this case the plan would not change the absolute difference in the current costs of attending these two types of schools. A $1,500 tax deferral, however, would produce greater percentage reductions in the current costs of attending public institutions that charge less than private ones and therefore would result in a relative increase in the current costs of attending most private institutions. (At some public institutions, the tax deferral might finance education costs completely.) Of course, except for interest payments, a tax deferral does not alter the long-run cost differential of high- and low-cost schools because the tax loan eventually must be repaid.

Ease of Administration

A tax deferral for education expenses would be more difficult to administer than a general education tax credit or credit/deduction plan with similar eligibility limitations since a tax deferral plan would involve more recordkeeping. For example, the specific option described above would require records to be kept by the IRS for 15 years or so to insure that the entire tax loan is repaid. If the payback period were shortened to avoid this shortcoming, the benefit to taxpayers would be reduced accordingly.

At present, records are generally kept in the IRS computer system for only three years. (Records going back more than three years generally are not maintained in the system but are sent to Federal Record Centers, which are less accessible.) For the IRS effectively to monitor a tax deferral program with a long payback period, the Service would need ready access to records for a period much longer than three years. Substantially increasing the recordkeeping capabilities of the IRS computer system would be costly. The recordkeeping chore would be further complicated by the fact that taxpayers change residences frequently. 29/

Budget Visibility and Controllability

A tax deferral for higher education expenses ranks low in terms of budget visibility and controllability. In this respect it is like a tax credit, a credit/deduction option, and other tax expenditures that have not yet become subject to as much review and scrutiny as direct outlays and which, because they are entitlement programs that provide subsidies to all who qualify, are not subject to fixed ceilings on appropriations.

In addition, as in the case of other loan programs, the actual magnitude of tax deferrals tends to be less visible once the program has been in effect for some time and repayments begin to offset new deferrals.

29/ During the 1970-1975 period, 41.3 percent of the population four years and older changed residences within the United States. Source: U.S. Bureau of the Census, Current Population Reports, Series P-20, no. 285.

APPENDIXES

APPENDIX A. BRIEF DESCRIPTION OF TAX EXPENDITURES AND OTHER STUDENT AID PROGRAMS [1]

Federal aid to students is provided in the form of tax expenditures, grants, direct loans, and loan guarantees. Table A-1 lists the major programs.

The Exemption for Student Dependents allows a student to be claimed as a dependent for tax purposes even if he would otherwise be ineligible because he is over 19 years of age or has an adjusted gross income greater than $750. This tax provision benefits families who have tax liabilities and children with earnings. The value of each $750 personal exemption is $525 for families with a top marginal tax rate of 70 percent and $150 for families taxed at the median marginal rate of 20 percent. In addition to a $750 exemption, a $35 personal tax credit can be claimed for each student.

The Exclusion of Fellowships and Scholarships benefits those students who have taxable income or whose spouses have taxable income. The value of this exclusion varies with the size of the award and with the marginal tax rate of the taxpaying unit.

The Exclusion of G.I. Bill Education Benefits aid those veterans who choose to attend school. The benefits of this

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[1] Tax expenditures for higher education are discussed more fully in Committee on the Budget, U.S. Senate, Tax Expenditures: A Compendium of Background Material on Individual Provisions, 94:2 (1976). Federal programs of direct assistance for higher education are described in House Committee on Education and Labor and the Senate Committee on Human Resources, A Compilation of Federal Education Laws: As Amended Through June 30, 1977, 95:1 (1977). See, also, Congressional Budget Office, Postsecondary Education: The Current Federal Role and Alternative Approaches (February 1977); Veterans' Administration, Federal Benefits for Veterans and Dependents (January 1977); and Congressional Budget Office, Social Security Benefits for Students (May 1977).

TABLE A-1. MAJOR STUDENT AID IN THE FORM OF TAX EXPENDITURES AND FEDERAL OUTLAYS a/

Tax Expenditures	Direct Outlays
Exemption for Student Dependents	Basic Educational Opportunity Grants
Exclusion of Fellowships and Scholarships	Supplemental Education Opportunity Grants
Exclusion of G.I. Bill Education Benefits	Work/Study Programs
Exclusion of Student Social Security Benefits	National Direct Student Loans
	Guaranteed Student Loans
	G.I. Bill Education Benefits
	Student Social Security Benefits

a/ The budgetary costs of these programs and their distribution among income groups are presented in Tables 1 and 2 of the text.

exclusion are distributed among income groups in approximately the way actual payments are distributed except that the value of the exclusion will vary with the marginal tax rate of the recipient.

The Exclusion of Student Social Security Benefits assists those families in which the head of household is disabled, retired, or deceased, and in which there is a student 18 to 21 years old. The benefits of this tax exclusion are distributed among income groups in approximately the way student social security payments are distributed except that those in somewhat higher income groups will benefit somewhat more because of their higher marginal tax rates.

Other Tax Expenditures than those discussed above assist students indirectly by providing aid to educational institutions. These include the deductibility of gifts and bequests to educational institutions, the exclusion of unrealized capital gains on these charitable contributions, the deductibility of state and local taxes used for higher education, and the exemption of interest on state and local higher-education borrowing. Aside from tuition charges, charitable contributions and nonfederal government support are the primary sources of finance for institutions. To the extent that tax expenditures promote charitable contributions or make it easier for states and local governments to raise revenues, they assist students by allowing institutions to rely more on these sources of finance than on increases in tuition and other charges.

Basic Educational Opportunity Grants were established in 1972 to provide aid to students who are carrying at least half of a normal full-time load at colleges, postsecondary vocational schools, and technical/trade institutions. Student eligibility is based on need as determined by an annually reviewed formula that takes into account such factors as family income, assets, taxes, number of wage earners, and family size. The amount of each qualified student's grant is equal to the lesser of (1) $1,800 minus the family's expected contribution 2/ or (2) one-half the cost of attendance. Eligible students may receive basic grant

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2/ Appropriations for fiscal year 1978 effectively reduce the maximum award from $1,800 to $1,600. A family is expected to contribute 20 percent of its discretionary income up to $5,000 and 30 percent of discretionary income above $5,000.

awards for four academic years although eligibility is sometimes extended to five years.

Supplemental Educational Opportunity Grants (formerly called Educational Opportunity Grants) were established in 1965. These funds flow through institutions to students of exceptional financial need as determined by the institutions under national criteria. The *size of the grant* is based on the student's financial need and ranges from $200 to the lesser of (1) $1,500 per academic year or (2) one-half the total financial aid provided to the student by the institution.

The College Work/Study program was started in 1965 to assist financially needy students through part-time employment. Together with Supplemental Educational Opportunity Grants and National Direct Student Loans (discussed below), they form "packages" of aid by which institutions assist students. Grants to institutions are authorized for partial reimbursement of wages paid to students participating in a work/study program in public or private nonprofit organizations. Currently federal funds pay 80 percent of the student's wages, with the remainder being paid by the institution, the employer, or some other donor.

National Direct Student Loans were established in 1958 and provide long-term, low-interest funds to needy students at eligible postsecondary institutions. For this purpose, a revolving loan fund is created at each institution with 90 percent of the capital provided by the federal government and 10 percent by the institution. Loans bear 3 percent interest generally beginning nine months after the student ceases at least part-time attendance.

The Guaranteed Student Loan program was established in 1965 to help students borrow from private lenders to apply for training at colleges, universities, and vocational schools. Loans carry a 7 percent interest charge to the student and are either guaranteed by a state or private nonprofit agency or insured by the federal government. A maximum of $2,500 per academic year ($5,000 for graduate training) may be applied for in most states if the education costs warrant borrowing this amount. Total loans outstanding may not exceed $10,000 for undergraduates and vocational students or $15,000 for students who extend their borrowing for graduate study. The federal government pays the interest for eligible students while they are in school and during a 12-month grace period following completion or withdrawal from school. Any student whose adjusted family income is less than $25,000 (this corresponds to an adjusted gross income of about $31,000) is automatically eligible for the "in-school" subsidy. Over 95 percent of all borrowers receive this subsidy.

The G.I. Bill that currently provides virtually all of the veterans' education benefits was enacted in 1966 and covers those who served during the period February 1955 through December 1976. It grants up to 45 months of benefits for veterans enrolled in approved courses of instruction. Under this program, the veteran receives a monthly education assistance allowance that is intended to meet in part living expenses as well as education costs. The amount of the allowance depends on the number of dependents the veteran has and on whether school attendance is full time or part time. Currently those with no dependents who attend school full time receive $310 per month. Eligibility for these benefits extends for a period of 10 years after separation from service.

The most recent education program assisting military personnel was enacted in October 1976 and covers those entering the service after December 1976. The new program differs from the previous ones in that those wishing to participate must make contributions while they are in the service. The federal government matches each dollar of a participant's contribution with $2 of government funds.

Social Security Student Benefits were begun in 1965 and are paid to 18-to-21-year-old, unmarried, full-time student dependents of dead, disabled, or retired workers. Currently about one-eighth of all full-time enrolled 18-to-21-year-old students draw such benefits, averaging over $1,900 a year. Social security student benefits are not needs tested; rather the benefit is simply calculated as half that paid to a retired (or disabled) worker and three-fourths of the amount that a deceased worker would have received as retirement benefits. But 43 percent of the student beneficiaries receive less than the formula amount because of the family maximum rule that, in general, restricts total family benefits to no more than 175 percent of the worker's benefit.

APPENDIX B. EDUCATION TAX ALLOWANCES AND TAX EQUITY

Education tax allowances raise issues about the tax equity among individuals similarly situated (horizontal equity) and among taxpayers with different incomes (vertical equity). Education expenses do reduce the amount of income that can be used for other purposes, but it is not clear that such expenses represent the kind of reduction in ability to pay taxes that is normally taken into account in the tax code. The implications of education tax allowances for tax equity depend on what view of this issue is adopted.

In theory, involuntary and unexpected personal expenses that are extraordinarily large relative to income have a greater impact on ability to pay taxes and thus may have more claim to be treated as legitimate allowances against taxes. Casualty losses and extraordinary medical expenses are good examples. A person generally has little control over these outlays; 1/ they usually are unforeseen and sometimes are catastrophically large. Because of the nature of these expenses, the tax allowances provided for them receive fairly wide support as measures that improve tax equity. They help to relieve hardships that would arise from the strict application of a tax on economic income.

It is not clear that education expenses resemble casualty losses and medical expenses closely enough to warrant special tax allowances for tax equity purposes. Like an expenditure for medical care, an expenditure for tuition may be viewed by many taxpayers as a duty, a high-priority expense to be borne for the benefit of one's children or other dependents. As such, they may be considered semi-involuntary in nature and deserving of a tax allowance on the grounds that, to some extent, they represent a nonvoluntary reduction in ability to pay taxes. But they also resemble other semi-involuntary expenses, such as those for food and shelter, for which no deduction is provided. Moreover, education expenses differ from medical expenses and casualty losses in that the need to finance an education can almost always be anticipated far in advance. Finally, it may be argued that

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1/ Some medical expenses, such as those incurred for face-lifting and hair transplants, may be viewed as voluntary, however.

education expenses are inherently a more personal type of consumption than are medical expenses and thus should not be given any tax allowance. 2/

If education expenses are not considered to be a legitimate offset to taxes, then the adoption of an education tax allowance will worsen both horizontal and vertical equity. Horizontal equity will be adversely affected since two families with the same income, wealth, and number of children will be subject to different tax liabilities if one has children in college while the other does not. 3/ Vertical equity (fair treatment among taxpayers who differ only in income) will also suffer since the progressivity of the tax structure will depend in part on the number of students in a family. On average, taxpayers with children in college are wealthier than most other taxpayers; thus the adoption of an education tax credit will also make the tax structure less progressive overall. Some may view reduced progressivity as a desirable reform, but it could be provided in a more straightforward way by altering the tax rate schedule rather than by providing allowances for education expenses.

If, however, one adopts the opposing view that some tax allowance for education expenses is necessary to achieve equity among taxpayers based on their ability to pay taxes, the only question left is the form that the allowance should take. A tax deduction seems more consistent with this view than a credit.

In our tax system, expenses that reduce the ability to pay, such as casualty losses or unusually high medical expenses, usually take the form of deductions. In this way, the relationships among taxpayers with different incomes but the same ability to pay taxes are not modified. A credit, by contrast, could leave a low-income taxpayer with modest education expenses better off

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2/ For a discussion of the relation between education tax allowances and taxpayer equity, see John K. McNulty, "Tax Policy and Tuition Credit Legislation: Federal Income Tax Allowances for Personal Costs of Higher Education," California Law Review, vol. 61 (January 1973), pp. 36-42.

3/ If education tax allowances are focused on middle-income families with children in school and are financed by higher taxes on middle-income families, the result is a transfer of income from one group of middle-income families to another.

than someone with higher income and more education expenses even though it is stipulated that the education expenses have left them both with the same ability to pay taxes.

If, for example, Taxpayer A has income of $22,000 and education expenses of $2,000 while Taxpayer B has income of $25,000 and education expenses of $5,000, both have $20,000 left after these expenses with which to pay taxes. If education expenses are deductible for tax purposes, both A and B would pay the same tax. But if instead a credit is given for some portion of the education expenses, Taxpayer A would end up paying less than Taxpayer B even though it is assumed that both have the same ability to pay. This example is elaborated in Table B-1.

Some tax theoreticians have advocated education tax allowances not on the basis of ability to pay taxes but rather to perfect the definition of taxable income. 4/ The tax law now allows businesses to deduct certain expenses incurred in the production of income. These include depreciation costs on capital investment. It may be argued that the expenses of obtaining a college education, at least in part, can also be viewed as costs associated with the production of future income--an investment in human capital--and that the current definition of taxable income should be changed to allow deductions over time of the portion of college expenses considered to be a form of investment.

If this view is adopted, then tax allowances to students--who will earn the income resulting from the investment-- would seem appropriate while tax credits, deductions, or deferrals for parents would not. 5/ Deductions seem preferable because they reduce the tax base to which the progressive tax rates are applied. Thus, deductions do not affect the progressivity of the tax structure. In contrast, credits and deferrals of equal amounts reduce taxes otherwise due. This reduction is not proportional to the progressive tax structure and thus changes its progressivity.

4/ For example, see Richard Goode, The Individual Income Tax (Brookings Institution, 1976), pp. 80-92.

5/ Education expenditures by parents, relatives, or friends may be considered gifts, the value of which could be recovered free of income tax just as the cost of a depreciable asset acquired as a gift can now be written off against the recipient's income.

TABLE B-1. COMPARATIVE EFFECTS OF TAX CREDITS AND TAX DEDUCTIONS ON TAXPAYER EQUITY: IN DOLLARS

	Deduction		Credit	
	Taxpayer A	Taxpayer B	Taxpayer A	Taxpayer B
Income	22,000	25,000	22,000	25,000
Education Expenses	2,000	5,000	2,000	5,000
Deduction	-2,000	-5,000	*	*
Taxable Income	20,000	20,000	22,000	25,000
Tax before Credit	4,380	4,380	5,020	6,020
Credit (25%)	*	*	-500	-1,250
Net Tax	4,380	4,380	4,520	4,770

*/ Not applicable.